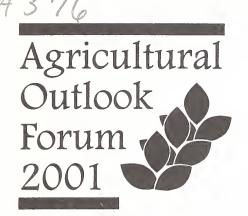
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Speech Booklet 2 Thursday, February 22

For release 7:00 a.m., February 22

3:30 REDUCING THE RISK OF FOODBORNE ILLNESS Moderator's Remarks

Catherine E. Woteki, Ph.D., R.D.

Risk Assessment For Foodborne Illness Ian A. Gardner, Professor of Epidemiology, University of California - Davis

Risk Communication: Reducing the Risk of Foodborne Illness Scott C. Ratzan, MD, MPA, MA

Reducing the Risk of Foodborne Illness: A State Perspective
Douglas Saunders, Program Manager, Office of Dairy and Foods, Virginia Department of
Agriculture and Consumer Services

3:30 SMALL FARM SURVIVAL: IMPLICATIONS FOR THE NEXT FARM BILL Small Farm Survival: Implications for the Next Farm Bill Karen Watt, Past President, North American Farmers' Direct Marketing Association

Farm Bill - A Southern Specialty Crop Perspective
Carl B. Loop, Jr., President, Florida Farm Bureau Federation

3:30 NEW VALUE-ADDED LIVESTOCK AND POULTRY INITIATIVES Moderator's Remarks

Randall E. Torgerson, Deputy Administrator, Rural Business-Cooperative Service, USDA

The Pork America Initiative: Looking Beyond Live Hog Sales Jim Lewis, Director, Pork America

U.S. Premium Beef, Selling Meat and Meals Instead of Cattle Steven D. Hunt, Chief Executive Officer, U.S. Premium Beef, Ltd.

The Iowa Turkey Cooperative Experience "West Liberty Foods" K.D. Rutledge, President/CEO West Liberty Foods

REDUCING THE RISK OF FOODBORNE ILLNESS

Presented: Thursday, February 22, 2001

Catherine E. Woteki, Ph.D., R.D.

The decade of the 1990's witnessed many reforms in government programs and policies designed to reduce the risk of foodborne illness in the U.S. population. These reforms included:

- requiring safe handling labels on raw meat and poultry in 1993,
- establishing CDC's active foodborne disease surveillance activity called FoodNet in 1994,
- establishing the Office of the Under Secretary for Food Safety in USDA in 1994,
- issuing the seafood HACCP rule in 1995,
- passing the Safe Drinking Water Act and the Food Quality Protection Act in 1996,
- implementing the Pathogen Reduction and HACCP rule for meat and poultry beginning in 1997 and ending in 2000,
- increasing food safety funding and coordination through the President's Food Safety Initiative, 1997-2001,
- creating the President's Council on Food Safety and the Joint Institute for Food Safety Research in 1998, and
- issuing the Egg Safety Action Plan in 1999.

This afternoon's session is designed to explore the need for further food safety reforms in four areas: risk assessment, risk management, risk communication, and federal/state relations. Four distinguished speakers will be addressing these topics. Dr. Ian Gardner, Professor of Epidemiology at the School of Veterinary Medicine of the University of California at Davis will speak to the topic of science and risk assessment. Mr. Tom Billy, Administrator of the Food Safety and Inspection Service of USDA will address the topic of risk management. Dr. Scott Ratzan, an expert on risk communication will address that topic. Mr. Doug Saunders of the Virginia Department of Agriculture and Consumer Services and an officer with the Association of Food and Drug Officials will speak about States' perspectives on food safety reforms. We will hear from each speaker, and then take questions from the audience at the end. I hope in that way to also generate some discussion among the panel as well.

President's Council on Food Safety

The President's Council on Food Safety was established by Executive Order 13100, and remains in effect as an organization to coordinate Federal food safety policies and activities as well as budget development. The Council was tasked to develop a strategic plan which it delivered to President Clinton on January 19, 2001. The Council's second major task is to coordinate budget development which it has done throughout its tenure. The Council's strategic plan contains goals, objectives, and actions; performance measures to assess progress on the plan; an analysis of organizational structures to improve program effectiveness; and an analysis of the need for new legislation to enable the food safety agencies to better protect public health.

The strategic plan's overarching goal is to "protect public health by significantly reducing the prevalence of foodborne hazards, thereby reducing acute and chronic illnesses and injuries through science-based and coordinated regulation, inspection, enforcement, research, and education programs." To accomplish this, three strategic goals are articulated:

- The U.S. food safety system is based on sound science and risk assessment.
- The U.S. system for managing food safety is effective from farm to table.
- The U.S. food safety system openly and effectively provides information on food safety risks and education on how to control those risks for everyone from farm to table.

Our speakers this afternoon will be providing their views of the strategic directions outlined in the plan, and the need for further actions.

In its report to the President, the Council reached conclusions about the current food safety system's organizational structure and legal authorities and makes recommendations for further reforms. The Council found that the existing organizational structure reflects the legislative history of the last 100 years. The dozen agencies with direct and related food safety authority allow for diverse agency input into decisions, but this same structure reduces the Federal government's ability to allocate resources to food safety problems based on the risks that they pose. Furthermore, the fragmented structure also impedes coordination on issues that cut across multiple agencies' jurisdictions such as was encountered with the recent StarLink corn problem.

The Council concluded that reorganization alone will not improve the public health protection now offered by the current structure. Implementing the strategic plan's goals and objectives as well as statutory reforms are needed. The Council also notes that the strategic plan can be implemented under any of the organizational options it considered, and no single organizational structure offers the perfect solution to how best to organize the Federal efforts.

The Council recommends that the new administration develop near-term legislative proposals to strengthen the existing food safety statutes enabling stronger prevention, enforcement, and recordkeeping activities. The Council also recommends that near-term efforts be made to strengthen agency coordination to improve the efficiency and effectiveness of Federal food safety activities. Finally, the Council recommends the development of comprehensive, unifying legislation, followed by the development of a corresponding organizational reform plan that protects the public's health by allowing risk-based allocation of resources and utilization of science-based regulation, enforcement, and education. The comprehensive framework should address food safety standard setting, inspection, enforcement, research, and education. Finally, the Council stressed that no weakening of existing statutory authorities should occur.

The report of the President's Council on Food Safety reflects its members' belief that even though the current Federal food safety system provides a high level of public health protection, it can be strengthened through further food safety reforms. Foodborne illnesses remain a major cost to our society. The numbers of people who are vulnerable to foodborne diseases continue to grow. Food production distribution, and consumption patterns have changed and continue to change posing new food safety problems. Public concern about the safety of food remains high. The Council's report therefore concludes that changing the law and the current organizational structure would further strengthen public health protection and improve the efficiency of the Nation's food safety system.

Outlook Conference 2/22/01

Food Safety Reforms

- Safe handling labels, 1993
- FoodNet, 1994
- Under Secretary for Food Safety, 1994
- Seafood HACCP rule, 1995
- Safe Drinking Water Act, Food Quality Protection Act, 1996

Additional reforms:

- Pathogen Reduction and HACCP rule, 1996
 - SSOP implementation, 1997
 - HACCP implementation, 1998-2000
- President's Food Safety Initiative, 1997-2001
- President's Council on Food Safety and JIFSR, 1998
- Egg Safety Action Plan, 1999

Reducing the Risk of Foodborne Illness

- Risk Assessment Ian Gardner
- Risk Management Tom Billy
- Risk Communication Scott Ratzan
- State Perspective Doug Saunders

President's Council on Food Safety (EO 13100)

- Strategic Plan, 1/19/01
 - Goals, objectives, actions
 - Performance measures
 - Organizational structure
 - Legislation
- Coordinated budget

Strategic Plan Overarching Goal

To protect public health by significantly reducing the prevalence of foodborne hazards, thereby reducing acute and chronic illnesses and injuries through science-based and coordinated regulation, inspection, enforcement, research, and education programs.

Strategic Plan Goals

- U.S. food safety system is based on sound science and risk assessment.
- U. S. system for managing food safety is effective from farm to table.
- U.S. food safety system openly and effectively provides information on food safety risks and education on how to control those risks for everyone from farm to table.

Key Findings (1)

- Existing organizational structure
 - Reflects statutes of 100 years
 - Allows for diverse agency input
 - Reduces ability to allocate resources on risk
 - Impedes coordination

Key Findings (2)

- Reorganization will not improve public health protection.
- Statutory reform, implementation of Plan are needed.
- Plan can be implemented under any organization.
- No single organization is perfect solution.

Outlook Conference

Recommendations

- Near-term legislative proposals
- Near-term efforts to strengthen agency coordination
- Comprehensive unifying legislation, followed by organization reform plan

Comprehensive Legislative Reform

- Risk-based, prevention-oriented system for all food
- Allow for risk assessment, use of sciencebased preventive controls, allocation of resources based on risks, use of modern enforcement tools, measurement of results
- No weakening of existing statutory authorities

Further reforms are needed

- Foodborne illnesses are major cost to society.
- Vulnerable populations are growing.
- Food production, distribution, and consumption have changed.
- Public concern remains high.
- Changing laws and structures would strengthen public health protection, improve efficiency.

RISK ASSESSMENT FOR FOODBORNE ILLNESS

Presented: Thursday, February 22, 2001

Ian A. Gardner
Professor of Epidemiology
University of California, Davis, CA 95616

Risk assessment is a systematic process of understanding factors that influence the risk of adverse events such as the occurrence of foodborne illness. Some risk assessments may involve many assumptions, few data and much "expert opinion". The latter subjective inputs may not necessarily be evidence- or science-based and thus the entire assessment may be associated with great uncertainty and be considered by some not to be science. This is not the fault of the risk assessor but often reflects a pressing political or societal need for a risk assessment before adequate information and/or empirical data are available. Regardless of this limitation, a risk assessment of foodborne illness can often define important questions and data gaps that warrant future research. In addition, it is important to note that depending on the specific question that is being addressed, risk assessments might need to only be qualitative or semi-quantitative, rather than completely quantitative. In a quantitative risk assessment, a numeric estimate of risk is obtained and the uncertainty in the estimate is specified. Epidemiologic methods and tools are central to the risk assessment process.

The risk assessment process has 4 main stages: hazard identification, exposure assessment, hazard characterization and risk characterization (see Appendix for definitions). Essentially, the process attempts to answer the following questions:

- What can go wrong?
- How likely is the event to occur?
- What are the consequences if the hazard occurs?

The risk assessment process (although separate from risk management) may involve evaluation of interventions or strategies to mitigate the risk of illness. In contrast, risk management focuses on decisions and policy, and considers issues of risk as well as human and societal values and judgements. Risk management concepts will be described in detail in the next presentation but it is clear that risk assessment can greatly contribute to the decision-making process. Use of a standardized and transparent risk assessment procedure should also facilitate risk communication to stakeholders.

Risk assessment can provide useful information for developing and refining Hazard Analysis and Critical Control Point (HACCP) programs for food producing industries but I will not elaborate on this relationship here. In the limited time available, I will provide my perspective, as a veterinary epidemiologist, of important issues in the context of risk assessment and foodborne illness, and indicate some of the research needs and studies that will facilitate sound risk assessments. I will use an example of *Escherichia coli* O157 in feedlot cattle to demonstrate the type of prospective longitudinal studies that are needed to integrate animal data from the farm and carcass-level data through the slaughter processing system. I will not focus on public health aspects, but indicate that there are critical research needs in areas such as characterization of individual- and population susceptibility to microbial pathogens in human subpopulations such as the elderly and immunocompromised.

RISK ASSESSMENT - WHERE ARE WE NOW?

In the last 5 years, there has been substantial progress in developing systematic general approaches for quantitative risk assessments for microbes in food products and their production processes. Much of this work is published in journals such as the International Journal of Food Microbiology, Journal of Food Protection and the Journal of Applied Microbiology and therefore it is reasonable to say that it is scientifically recognized. These general approaches have been adapted for specific microbial hazards including assessments of:

- Listeria monocytogenes in soft cheese
- Salmonella enteritidis in pasteurized liquid eggs and Salmonella sp. in chicken products
- E. coli 0157: H7 in ground beef hamburger

In addition, there has been substantial research progress on a variety of topics including:

- Modeling the uncertainty and variability in data through probability distributions
- Modeling the uncertainty that is attributable to the predictive microbial growth model
- Choosing the "best" statistical model for microbial growth
- Extrapolation of data to low-dose exposures.

Although there are areas of modeling that require further development, I don't believe that this is the major limiting factor in risk assessment. As an epidemiologist it is clear to me that the greatest limitation is the lack of <u>valid empirical data</u> to fill many gaps in our risk assessment models. For example, if you read the current draft assessment of the "Relative risk to public health from foodborne *Listeria monocytogenes* among selected categories of ready-to-eat foods", 12 of 13 points in the section on information and research needs make reference to <u>data and studies</u>.

It is also important to note that most of the existing risk assessment models are unvalidated i.e. even if they were constructed on the basis of empirical data, they have not been validated under naturally-occurring conditions. Furthermore, most of the empirical data used in these models were derived from limited observations or experiments. We really don't know whether the models are correct, partially correct, or even somewhat reflective of the truth. However, the old adage "all models are wrong but some models are useful" probably applies because it is clear that they identify some of the critical information and research needs. Furthermore, models can always be updated in an iterative way, as the data become available.

RISK ASSESSMENT – WHAT DO WE NEED IN THE FUTURE?

Clearly, there is a pressing need to design and implement well-designed descriptive and risk-factor studies that will fill data gaps in a timely fashion. Ideally, these studies should link the farm, the slaughter process and post process handling of carcasses and meat/food products. Historically, studies have focussed on one part of the process rather than taking a more integrative approach. Data from longitudinal studies has great potential for facilitating the role of risk assessors and ultimately providing better data for decision-makers.

There are a number of logistical and technical challenges that make this less than straightforward. Amongst these are that some pathogens such as *L. monocytogenes* are found in multiple animal species and multiple ready-to-eat foods. Furthermore, there are multiple strains of the organism. The feasibility of longitudinal studies is much greater for pathogens such as *E. coli* 0157:H7 that essentially have a single animal host and most human outbreaks involve one food type i.e. raw or undercooked hamburger.

However, a systematic evaluation of one or two specific food items e.g. fresh soft cheese and deli meats and one or two strains of *L. monocytogenes* might have greater long-run benefits than a more general approach to foodborne listeriosis.

I will mention some technical issues that apply to studies of all foodborne pathogens:

- Collection of data in live animals or at the slaughter plant involves diagnostic tests that are imperfectly sensitive and specific. For example, if 10 of 100 (10%) of samples are culture-positive for Salmonella, what is the true prevalence of *Salmonella* infection? Is the true prevalence of infection 15%, 20% or another value? We can only adequately address this question with an estimate of the field performance characteristics of the tests, especially the many rapid tests that are currently available or under development.
- Prevalence data are often presented and used in a summary form that ignores the fact that animals are spatially aggregated and that not all pathogens are present in animal populations at the same frequency. This latter phenomenon is reflected in a range of values among farms i.e. some farms have a low prevalence of infection, others have a moderate prevalence of infection and others a high prevalence of infection. Such data are practically useful because they can form the basis of on-farm control programs and mitigations at slaughter plants e.g. Salmonella control program in Danish swine herds.
- Most of the prevalence data for microbial pathogens in food products are qualitative (yes/no) and the level of contamination has not been quantified.
- Optimal sampling approaches to deal with clustering of pathogens in live animals and carcasses require development and validation for many pathogens.

INTEGRATED "FARM TO PRODUCT" STUDIES: AN EXAMPLE

I would like to provide an overview of an example study that I believe is the type of collaborative effort that is necessary to tackle many of these complex food safety research needs. I use this example as one of the many solutions/approaches to provide critical epidemiologic data that are needed to fill data gaps in risk assessments.

E. coli O157: H7 is ubiquitous in U.S cattle feedlots but pen prevalence within feedlots is highly variable (0 to 70%). Risk factors associated with higher prevalence as evidenced by fecal shedding of the organism include wetter condition of the pen floor, lower body weights at entry to the feedlot, time on feed, type of ration and season of the year when sampled. At the slaughter plant, practices that lead to lower frequencies of carcass contamination with *E. coli*, in general, have been documented and mitigation strategies evaluated. However, there is no research that has evaluated carcass contamination relative to the shedding of *E. coli* O157 in live animals by testing cattle preshipment and at various stages of processing in slaughter plant. A key research question is whether "pen-risk" of *E. coli* O157, as evaluated by diagnostic tests immediately preshipment, is correlated with carcass risk of *E. coli* O157.

The widely variable prevalence among animals and pens suggests a basis for variability in the risk of contamination of carcasses and therefore variability in risk of contamination of meat products destined for human consumption. In order to accurately predict the risk of carcass contamination most closely, evaluation of the level of shedding in pens of cattle immediately prior to shipment to slaughter would be of the most practical use in allowing intervention strategies to be implemented based on the level of risk. These interventions could include processing cattle from high-risk pens at the end of the day's kill to

minimize the risk of contamination to animals in low-risk pens and the selective use of acid washes of the carcass.

We have set up a multidisciplinary and multi-institutional team of epidemiologists, animal scientists, laboratory diagnosticians, statisticians and biologists who are proposing to investigate the problem. The proposed project involves collaboration between universities, government agencies, livestock producers and slaughter plants. Colorado State University and University of California, Davis are the academic institutions involved but collaborating partners include the Food Safety and Inspection Service (FSIS), the Animal Plant Health Inspection Service: Centers for Epidemiology and Animal Health and the Rocky Mountain Regional Animal Health Laboratory. The American Meat Institute Foundation has indicated strong support for the proposal.

CONCLUSIONS

Risk assessment should not be viewed as a panacea for reducing food-borne illness. The process of doing a risk assessment, however, even if based primarily on expert opinion can be useful for identifying critical data and research needs. Once these needs are identified, they need to be prioritized and resources allocated to address them. However, there are numerous challenges in determining how best to objectively rank all data needs for all the foodborne pathogens.

More scientifically-rigorous studies are needed to provide the necessary data for sound risk assessments. There is a pressing need for field studies that essentially have a "farm to product" approach and include the evaluation of mitigation strategies. Optimal testing and sampling strategies need to be developed for each of the foodborne pathogens so that cost-effective but epidemiologically-valuable surveillance systems can be implemented. In addition, there is a need to analyze existing surveillance data from agencies such as FSIS and critically evaluate its value to the risk assessment process.

Now is the time to forge solid multidisciplinary partnerships between university researchers, government agencies and food-producing groups to tackle many of the difficult questions and bridge data gaps.

APPENDIX

Definitions and terms related to the risk assessment process:

<u>Hazard identification</u> – the identification of biological, chemical and physical agents capable of causing adverse health effects and which may be present in a particular food or group of foods

<u>Hazard characterization</u> – the qualitative and/or quantitative evaluation of the nature of the adverse health effects associated with biological, chemical and physical agents that may be present in food. For chemical agents, a dose-response assessment should be performed. For biological or physical agents, a dose-response assessment should be performed if the data are obtainable.

<u>Exposure assessment</u> – the qualitative and/or quantitative evaluation of the likely intake of biological, chemical and physical agents via food as well as exposures to other sources, if relevant.

<u>Risk characterization</u> - the qualitative and/or quantitative estimation, including the uncertainty in that estimate, of the probability and severity of known or potential adverse effects in a given population, based on hazard identification, hazard characterization and exposure assessment.

Risk Communication: Reducing the Risk of Foodborne Illness

February 22, 2001

SCOTT C. RATZAN, MD, MPA, MA

Editor-In-Chief, Journal of Health Communication

George WashIngton University School of Public Health and Health Services

Tufts University School of Medicine

Yale University School of Epidemiology and Public Health

and

Senior Technical Advisor, Global Bureau, USAID

For more Information: sratzan@aol.com; www.journalofhealthcommunication.com

Where are we in risk communication?

Usage of Existentially Validated Information

Verified data (knowledge)

Processed Data (information)

Mere Data



Health for the public good

Informed opinion and active cooperation on the part of the public are of the utmost importance in the improvement of health of the people.

World Health Organization
Preamble to the Constitution

OUR public

- The mouse is a little human
- •If it is not natural is must be bad
- •The plural form of the word anecdote is evidence

How do we diffuse risk scientifically?

- Public health usual ideas:
 - The data speak for themselves
 - Surveillance sets the agenda
 - Indicators set policy objectives

General Stereotypes of Health and Risk Communication

- Health communicators try to figure out how to warn people about serious hazards (e.g. cigarette smoking)
- Risk communicators try to figure out how to reassure people about modest hazards (e.g. vaccine safety, electromagnetic fields, etc.)

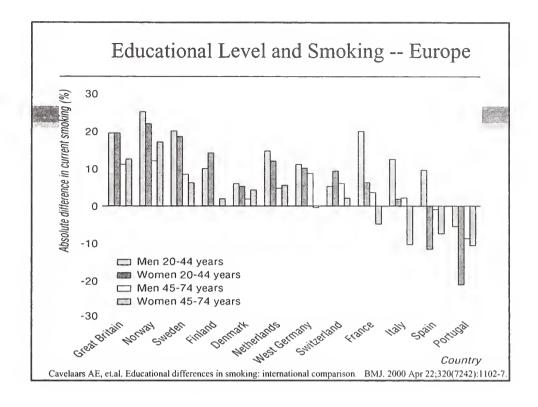
What is a science based approach to risk communication?

- Adds VALUE from the intervention
- •Bases decisions on SOUND SCIENCE and EVIDENCE
- Develops opportune OPINION LEADERSHIP
- •Involves Policymakers, Physicians, Patients and the Public in PARTNERSHIP

Challenges of health and risk communication

- GM foods
- Biotechnology
- New pills
- Natural vs. synthetic
- Tobacco cessation
- Theoretical/hypothetical/neglible risk

Are we looking at the right variables for our audience?



Lessons from tobacco: Health reasons alone are not motivational

- · Health arguments have not made people stop
- Socio-cultural vs. personal the guilt comes from 'not doing the right thing', social determinants help develop true personal desire
 - -- Resentment towards personal freedom continues
- 'It will not happen to me' syndrome, invincible nature: 'How is it possible that non-smokers also get cancer? So smoking does not cause cancer?'
- Serious medical problems and saliency changes behavior

Emotions are the loudest in health and risk communication

- •Slogans and programs do not motivate in isolation
- •The psychology of giving up (urge and willpower) must be exceeded by the near term benefit of stopping smoking (control, feeling good, beating disease, etc.)
- •It is more difficult to motivate with long-term benefits
- •Health and risk communication are about FRAMING issues

Risk Communication Kakistocracy: Lessons from Bovine Spongiform Encephalopathy (BSE)

"The biggest crisis the European Union ever had" Franz Fischler, European Commissioner for Agriculture

"The worst crisis the British Government has faced since the Falklands" John Major

"If one wanted to study the perils of imperfect policy-making, this case provides them all."

The Guardian

Back cover of *The Mad Cow Crisis: Health and the Public Good* (S. Ratzan, Editor) University College London Press; NYU Press, 1998)

BSE in the UK; a Background Lessons from News Coverage

- November 1986 newly recognized form of neurological disease appears in cattle - BSE
- June, 1988 known to public Mad cow disease
- March 20, 1996 cluster of 15 cases of new variant CJD released by SEAC .. "in the absence of any credible alternative, the most likely explanation at present is that these cases are linked to exposure to BSE"
- March 24, 1996 McDonalds bans beef
- EU ban...British boycott EU......
- 2001 Global concerns and ad hoc policies

BSE- Bovine Spongiform Encephalopathy

Key scientific question:

 How widely was the agent transmitted before and during the crisis? Have hundreds, thousands, or even millions of mostly British victims going to emerge in the years to come as vCJD's?

BSE- Bovine Spongiform Encephalopathy A public health tragedy in reverse

Key policy question:

 Are the precautions taken so far in the UK, the EU, the USA, and elsewhere sufficient to ensure that no or virtually no additional transmissions are even now occurring?

BSE-The response

- Killing of herds
- More studies without any confirmed vector identified
- Erosion of governmental trust
- Public uncertainty questioning of decisions on health (vaccines, GMOs, pill, etc.)

In the UK:

The Science: How did the original 16 or now 80+ people get vCJD?

There is no scientific proof that BSE can be transmitted to man by beef, but this is seen by SEAC as the most likely explanation, and all our control measures are based on the assumption that it is.

[Official Report, 9 March 1999; Vol. 327, c. 86W.]

CONFIDENCE in UK -- 1996 IF THEY MADE A STATEMENT ABOUT BSE

In whom would you have			Maria de Maria de Caracidado d
most confidence?	next most confid	dence? least conf	idence?
	%	%	%
A scientist in a government department	4.6	11.3	26.4
A scientist in a consumer organization	18.0	35.4	1.5
A scientist in a university	42.0	23.0	0.5
A scientist in the meat industry	26.7	8.8	13.5
A scientist writing in a newspaper	0.9	10.1	2.4
A journalist writing in a newspaper	0.4	1.1	52.0
(None of these)	4.5	2.0	1.0
(Don't Know)	2.3	3.0	2.1
(Refusal/NA)	0.6	5.2	0.6

Consequence of 1996: TRUST 1999

For each, do you generally trust them to tell the truth or not?

% 89 88 86 75	% 8 7 9	% 3 5 5
88 86 75	7 9	3 5 5
86 75		5 5
75		5
	17	
	1 /	8
70	23	7
58	26	16
52	35	13
40	39	21
38	46	16
35	49	16
19	73	8
17	71	12
10	82	8
	4 0	40 39 38 46 35 49 19 73 17 71

Consequence of 1996: Who to believe 1999

"Now thinking about BSE, which two or three of these sources would you trust most to advise you on the risks posed by BSE?"

Independent Scientists (e.g. university professors)	57
Farmers	22
National Farmers Union	21
Civil Servants at the Ministry of Agriculture, Fisheries and Food	18
Government Scientists	17
Television	16
Newspapers	12
Food Manufacturers	11
Friends/family	9
Supermarkets	6
Government Ministers	4
Politicians generally	2
Other	1
None of these	4
Don't know	3
Source: Better Regulation Task Force/MORI 9-19 January 1999. Bas	e: 1.015 adults aged 16+.

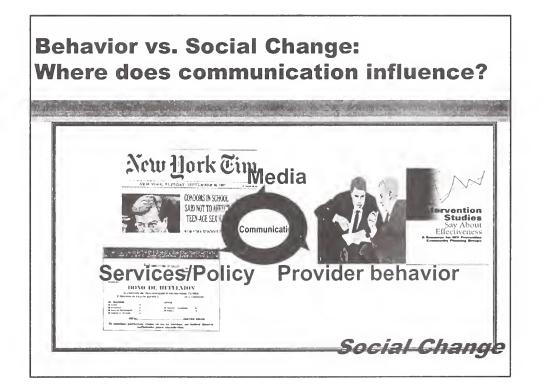
Effective Communication

The right information/message to the right people (targeting) at the right time for the intended effect

Proactive Dissemination

Communication with Sociometric science Usual community with mavens, The Maven/Champion/Opinion leader persuaders and connectors has his/her own networks Maven-Champion, € Maven Opinion _ Persuader leader





Final Points

- •Arguing that we must offer aggressive scientific reassurance related to risk issues is not reassuring. Hence, suggesting such a strategy is not scientific.
- •Do we need to look at new ways of adding a literacy related to risk? A risk competence?
- •How well trained are we in communicating risk related to food safety?

Scott C. Ratzan, MD, MPA, MA

Human risk from eating beef: Risk communication gone mad

It has been nearly five years since a UK scientific advisory committee linked mad cow disease to a human killer. In 1996, stories of Mad Cow Disease and its supposed link to a human disease heralded it to be the AIDS epidemic the UK never had. In December 2000, the Frankfurter Allgemeine newspaper, compared it to the threat to the Black Death that wiped out three-quarters of the population of Europe in the Middle Ages.

The theory that has caused the crisis is that mad cow disease or bovine spongiform encephalopathy (BSE)—a disease that effects cows – has been spread to humans by eating tainted beef. This leads to an incurable, deadly brain wasting disease called vCJD (variant Creutzfeldt-Jakob disease). In 1996, this scientific announcement and political furor became largest crisis since the Falkland War, according to then Prime Minster John Major.

What is the reality of BSE and vCJD? The purported infectious agent -- a prion – that is smaller than a virus has been identified. The molecular structure of the disease is similar in cows and people. Mad Cow disease and vCJD were principally thought to be confined to the UK. To date there are 83 attributable deaths to vCJD, principally in Europe (80 in UK, 3 in France)

Now five years later, with the sequel replaying with diseased cattle throughout Europe, people fear getting this brain wasting disease by eating beef. Yet, we still do not know how people got vCJD in the first place. The infectious agent has never been found in the meat of cattle. The mode of transmission also has not been replicated in thelaboratory.

Additionally, a recent House of Lords report states: There is **no scientific proof** that BSE can be transmitted to man by beef, but this is seen by SEAC (Spongiform Encephalopathy Advisory Committee) as the most likely explanation, and all our control measures are based on the assumption that it is. [Official Report, 9 March 1999; Vol. 327, c. 86W.]

Nonetheless, the financial losses in the billions of dollars are evident: thousands of cattle have been culled, farmers livelihoods sacrificed, and the future food supply threatened.

While much has been learned from BSE in the 90s, Mad Cow Crisis 2001, presents a similar panic. The crisis has gone global -- beef boycotts have spread beyond Europe, blood supplies have been threatened by policies that suggest there is a risk in blood donations from people who resided in Europe, and the "outbreak" threatens other products that are made from or contain bovine sources – gelatin, tallow and even pharmaceuticals.

Voila—four years after what the Guardian termed the case that demonstrates the "perils of imperfect policymaking," history again repeats. Politics, policy and leadership are blurred in protectionist and political dogma. Scientific fact has been overtaken by fear.

This has ramifications for policymakers everywhere who often say they are basing their decisions on science, while politics and public opinion are in charge. Qualifiers of theoretical, hypothetical, negligible and incalculably small mean little to politicians who become more fearful of the fearful public. The answer: policymakers make poor decisions with short-term (read I want to keep my job and cover my you know what) rather than long term (read I want to serve the public good).

Why is the Mad Cow Crisis something to be concerned about in the USA? The parallels for our policymakers are paramount. We can point to the facts --There are no known deaths due to vCJD or any mad cow disease in America. Yet, in the globalized world with goods and services that know no boundaries, facts and fears are universally blurred. The recent recall of genetically modified corn -- despite any known evidence that it could be harmful to human health -- threatens progress. Vaccines, drug products and food supplements have had recent safety challenges

In Summer 2000, the U.S. FDA convened an advisory on bovine sources in vaccines and concluded the risk of BSE transmission to humans was negligible and theoretical with a one in twenty billion probability. Yes, that means there are not enough people on the planet for one case to be present. Rest assured, there are no worries about vaccine safety in America. [My 18 month son has had all over 15 doses of vaccines to date.]

What we should fear the most is not Mad Cows in Europe, but the policymaker's response. We do not need a new hypothetical threshold redefining a precautionary principle for vaccines, drugs and food products.

The World Health Organization was built on a premise embodied in the preamble to their constitution: "Informed opinion and active cooperation of the public are keys to advancing health." We must demand such informed opinion of our policymakers to cooperate with the experts and the public to develop ideal decisions.

While many people would like to make their own informed decision about the food they eat, many questions remain - how much of the what we supposedly know is "right" (read factual or even truthful) is the right amount to communicate? How well-informed are the politicians and policymakers to be able to make decisions that ultimately serve the public good? And where can professional organizations and so-called consumer advocacy groups rely upon to get impartial information and the facts?

With such dilemmas, there is no surprise that a media feeding frenzy can easily ensue. Data, information, facts, and knowledge become slanted to the conflict and context. While it may be a right for opinion leaders, policymakers and those responsible for communication with the public to disseminate the latest information, it must be done in the right way with high ethical standards involving various stakeholders in the decision. We must beware of communicating risk in a way that can cause havoc leading to regulations that stifle science, with politics superceding public health. The stakes are high - the confidence in the food supply, scientific progress, and the health and well being of the public.

Scott C. Ratzan MD, MPA is author of the *Mad Cow Crisis: Health and the Pubic Good* (1998, NYU Press). He is editor of the *Journal of Health Communication* and on the faculty of Yale University School of Epidemiology and Public Health, George Washington University and Tufts University School of Medicine. (sratzan@aol.com; 202-712-5022)

REDUCING THE RISK OF FOODBORNE ILLNESS: A STATE PERSPECTIVE

Presented: Thursday, February 22, 2001

Doug Saunders
Program Manager, Office of Dairy and Foods
Virginia Department of Agriculture and Consumer Services

This afternoon's panel discussion is focused on the area of risk analysis as it pertains to reducing the risk of foodborne illness. The three components of risk analysis; risk assessment, risk management and risk communication, all play equally important roles in how states approach food safety and the reduction of foodborne illness. Therefore, in keeping with this afternoon's focus on the three components of risk analysis, I would like to share with you a look at the current relationship of these components within a state food safety program, and some ideas on improvements that can significantly enhance the nation's food safety system.

RISK ASSESSMENT

In most cases, state food safety agencies' predominant focus can probably be most accurately classified as risk management, since most of these agencies do very little of what would normally be considered as formal risk assessment. However, from the standpoint of typical activities, our inspection staffs conduct thousands of field risk assessments every day during the performance of food establishment inspections. As a matter of fact, state and local food safety programs conduct 80 to 90 percent of food establishment inspections performed in the United States. In order to effectively conduct these inspections, these inspectors must know and be able to recognize and assess the likelihood and severity of food safety risks related to food products, processes and operator performance. In most cases, these traditional inspections focus on every aspect of the food establishment that can negatively impact the safety of the food products handled by that establishment. Such traditional inspections are based largely on state laws that mirror the Federal Food, Drug and Cosmetic Act, good manufacturing practice regulations and retail and food service codes developed from earlier versions of U.S. Food and Drug Administration (FDA) models. These inspections, although thorough and comprehensive, can be labor intensive and time consuming.

States are currently in the beginning stages of a shift away from these traditional inspections towards risk-based, or HACCP inspections. Under such a system, the responsibility to recognize and eliminate or mitigate food safety risk becomes the primary responsibility of the food establishment operator. The role of the regulator in this system is to assure that the food establishment has a plan to effectively identify, monitor and control food safety risks, or more simply, that the establishment is operating in accordance with their HACCP plan to minimize food safety risks. However, the transition to such a system is enormous, is as much cultural as it is procedural, and at this point in time is largely incomplete in the non-meat food arena. Currently, the only industries with HACCP systems in place are the meat and poultry and seafood industries (although the FDA just recently published a final rule requiring the use of HACCP principles for fruit and vegetable juices).

The transition to a HACCP system is enormous and difficult from a cultural standpoint both for regulators and food establishment operators. Regulators need an improved understanding of underlying food safety principles, improved food-processing knowledge, and improved interpersonal skills. Food establishment operators need more or different knowledge and the will and ability to identify, monitor and manage food safety risks. Even in areas where this transition has been formalized (meat and poultry and seafood), the transition is occurring at an evolutionary, rather than a revolutionary, pace. This slow pace is dictated, in part, by the fact that state food safety programs must make large investments in time, training and consultation to assure that both regulators and food business operators have a clear understanding of redefined roles, and the knowledge and skills necessary to effectively operate a risk-based food safety system.

In all areas other than meat, poultry and seafood, the movement to risk-based inspections is uneven and uncoordinated. States are looking to partner with local and federal food safety agencies and the food industry to incrementally, steadily and systematically move the entire food safety system to a risk-based foundation.

RISK MANAGEMENT

Many are unaware of the level of risk management activities that are currently undertaken by the States. In addition to conducting 80 to 90 percent of all inspections, nearly all foodborne illness investigations are handled at the state level. The states maintain major and extensive food sampling databases, covering a broad variety of food products that have been tested for an equally broad variety of analytes. The states initiate numerous recalls of food products and in many cases have more authority in this area than federal food safety agencies. The states also are leaders in the areas of enforcement, compliance activities and educational efforts with food industries.

Within the past two and one half years, there have been significant efforts taking place focused on managing food safety risks in the most effective and efficient manner possible. These efforts are based on the vision of a nationwide, seamless, fully-integrated food safety system that incorporates all food safety resources at the federal, state and local levels and involves all food safety stakeholders including industry, academia, consumers and other interested parties. Such a system would eliminate overlaps and gaps that currently exist among federal, state and local food safety programs and would utilize all available food safety resources nationwide to further enhance the safety of the nation's food supply and significantly reduce the incidence of foodborne illness. This activity, which has become known as the National Food Safety System project (NFSS), has been focused on development of a system having the following properties:

- ♦ A common vision among all stakeholders
- ♦ National uniform standards
- Uniform inspections and enforcement
- ♦ Uniform laboratory practices
- ♦ Adequate training
- Enhanced communications
- ♦ Federal oversight

Work products that have developed out of the efforts of five NFSS workgroups include:

- Development of a template identifying all roles and responsibilities of each federal, state and local agency in the area of food safety;
- ♦ Development of consensus support and a conceptual design for a "virtual" National Food Safety Training Center, currently known as the "Food Safety University";
- ♦ Development of a draft model food safety partnership agreement for FDA and state food safety agencies;
- Development of a draft oversight model based on capacity and performance for FDA to use to audit state inspections conducted under partnerships and contracts;
- Development of draft guidelines for coordination of multi-state foodborne outbreaks, which include consideration of federal, state and local needs;
- ♦ A pilot project, sponsored and funded by the U.S. Department Agriculture/Food Safety and Inspection Service (USDA-FSIS), that utilizes eight federal, state and local laboratories to develop standards for E. coli O157:H7 sampling and testing methods;
- ♦ An Information sharing pilot, known as eLEXNET, jointly sponsored and funded by FDA and FSIS, to demonstrate how an internet based system can be used by federal, state and local food safety laboratories to exchange laboratory data;
- Development of uniform criteria that can be used to evaluate local, state and federal food safety programs in the areas of retail foods, meat and poultry, seafood and manufactured foods, by building on the FDA retail food standards as a basic template.

Also as a result of NFSS activities, many states have recently, within the past year, formed State food safety task forces which provide a forum for people from a broad cross-section of disciplines to identify, discuss and design real life improvements with respect to food safety. One of the objectives of these task forces is to provide a mechanism to route food safety information to and from the NFSS project. These task forces often include representatives from federal, state and local food safety agencies, food industries, academia and legislative and consumer groups. Subjects of meetings often deal with gaining knowledge, developing skills or designing and implementing systems to monitor and manage risks. However, the wide open forum of these meetings allows these groups to tackle topics related to practical risk assessment and risk communication if it is a need in their environment. Additionally, these task forces are invaluable to state regulators in raising the level of comfort, trust and communication among the participants; this may not be risk communication, but its product is more open and honest communication about risks.

The recently released Report of the FDA Retail Food Program Database of Foodborne Illness Risk Factors, often referred to as the "Baseline Study" is an excellent example of useful information now available to states and retail food businesses to assist them in targeted management of food safety risks. This report is an assessment within institutional food service establishments, restaurants and retail food stores of the occurrence of the following foodborne illness risk factors:

- ♦ Food from unsafe sources;
- **♦** Inadequate cooking;
- **♦** Improper holding temperature;
- ♦ Contaminated equipment; and
- ♦ Poor personal hygiene

In addition to providing the states and retail food businesses with a tool to target resources, information presented in this report will also allow them to measure progress in decreasing critical food safety risks against the now-established baseline.

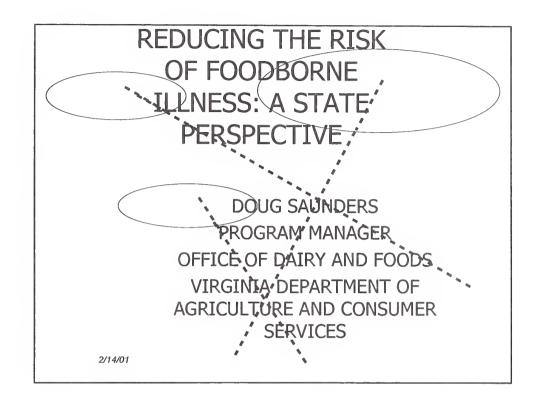
RISK COMMUNICATION

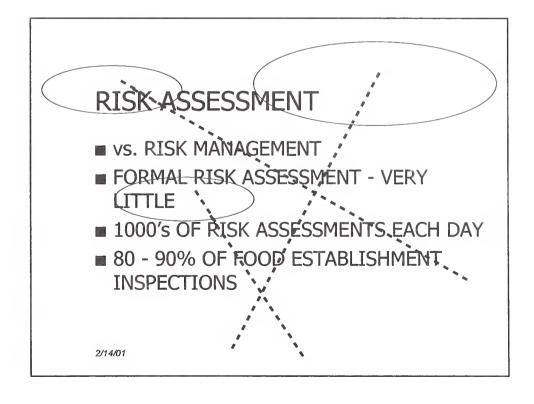
Much of what I have already presented has a direct or overlapping link to risk communication. Risk communication may arguably be the most important component of current risk analysis efforts. Currently, State and local governments are actively seeking ways to partner with others to provide regulatory staff and food businesses the information that is necessary to understand, monitor, manage and communicate food safety risks. Examples of current partnering or leveraging activities include the following:

- Working with federal agencies in the development of the virtual "Food Safety University" as part of the NFSS project;
- Working with other states to help in the implementation of the U.S. Centers for Disease Control and Prevention's (CDC) "States Helping States" initiative;
- ♦ Interacting with the University Extension System and other agricultural organizations to develop and communicate "Good Agricultural Practices" and "Good Management Practices" that deal with food safety issues at the production, or farm level;
- ♦ Developing effective liaisons between professional organizations such as the Association of Food and Drug Officials, the United States Animal Health Association, the National Association of City and County Health Officials, the Council for State and Territorial Epidemiologists, and many others.

States are also enthusiastically involved in activities designed to provide consumers with the appropriate information about identifying and managing risks in their purchasing, transporting, handling, preparing and serving food to their families and friends. State regulators are willing and able to assist with the content of consumer communications, but are looking to access the capacity and expertise of others in packaging and distributing behavior-altering information to consumers.

In conclusion, the bottom line for states is summarized in the adage "think globally but act locally." State, and local, food safety agencies need to have the conceptual knowledge about risk assessment, management and communication for the primary purpose of converting that knowledge to concrete, risk-lowering food safety improvements in their states, cities, counties and towns.





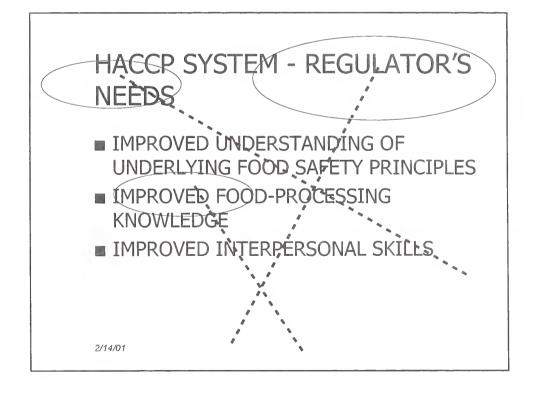
BASIS FOR INSPECTIONS STATE LAWS BASED ON FD&C ACT CURRENT GOOD MANUFACTURING PRACTICE REGULATIONS. EARLY VERSIONS OF FDA MODEL RETAIL & FOOD SERVICE CODES

SHIFT TOWARDS RISK-BASED (HACCP) INSPECTIONS

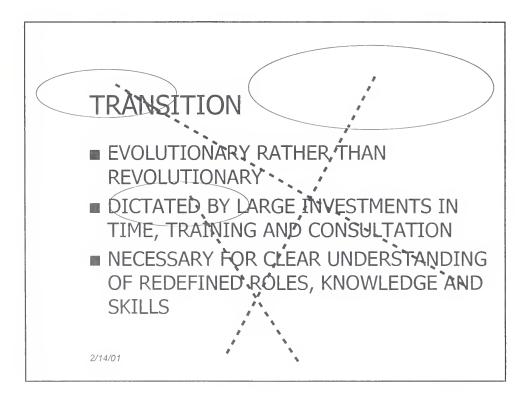
- RESPONSIBILITY OF FOOD ESTABLISHMENT OPERATOR MITIGATING RISK
- ROLE OF REGULATOR ASSURE THERE IS A PLAN TO EFFECTIVELY IDENTIFY, MONITOR & CONTROL FOOD SAFETY RISKS & ESTABLISHMENT IS OPERATING ACCORDING TO PLAN

2/14/01

TRANSITION FROM TRADITIONAL TO RISK-BASED ■ ENORMOUS ■ CULTURAL AND PROCEDURAL ■ LARGELY INCOMPLETE IN NON-MEAT FOOD AREAS



HACCP SYSTEM ESTABLISHMENT OPERATOR'S NEEDS MORE KNOWLEDGE DIFFERENT KNOWLEDGE WILL AND ABILITY TO IDENTIFY, MONITOR AND MANAGE FOOD SAFETY RISKS



MOVEMENT - UNEVEN AND UNCOORDINATED ...

- STATES LOOKING TO DEVELOP PARTNERSHIPS
- MOVE ENTIRE FOOD SAFETY SYSTEM TO RISK BASED FOUNDATION
 - INCREMENTALLY
 - STEADILY
 - SYSTEMATICALL

2/14/01

RISK MANAGEMENT BY STATES

- 80 90% OF ALL INSPECTIONS
- FOODBORNE ILLNESS INVESTIGATIONS
- MAJOR FOOD SAMPLING DATABASES
- RECALLS OF VIOLATIVE FOOD PRODUCTS
- ENFORCEMENT, COMPLIANCE AND EDUCATIONAL ACTIVITIES

VISION

- NATIONWIDE, SEAMLESS, FULLY-INTEGRATED FOOD SAFETY SYSTEM
- INCORPORATE ALL FOOD SAFETY RESOURCES
- INVOLVE ALL'STAKÉHOLDERS
- ELIMINATE OVERLAPS AND GAPS
- SIGNIFICANTLY REDUCE INCIDENCE OF FOODBORNE ILLNESS

2/14/01

NATIONAL FOOD SAFETY SYSTEM (NFSS) PROPERTIES

- COMMON VISION
- NATIONAL UNIFORM STANDARDS
- UNIFORM'INSPECTIONS'& ENFORCEMENT
- UNIFORM LABORATORY PRACTICES
- ADEQUATE TRAINING
- ENHANCED COMMUNICATIONS
- FEDERAL OVERSIGHT

NFSS WORK PRODUCTS

- TEMPLATE OF ALL ROLES/RESPONSIBILITIES
- FOOD SAFETY UNIVERSITY"
- MODEL FOOD SAFETY PARTNERSHIP
- OVERSIGHT MODEL TO AUDIT STATE INSPECTIONS `..'
- GUIDELINES FOR COORDINATION OF MULTI-STATE FOODBORNE OUTBREAKS

2/14/01

NFSS WORK PRODUCTS (cont.) PILOT TO DEVELOP STANDARDS FOR E.

- coli O157:H7 SAMPLING/TESTING
 METHODS
- INFORMATION SHARING PILOT (eLEXNET)
- UNIFORM CRITERIA TO EVALUATE FÖOD SAFETY PROGRAMS

STATE FOOD SAFETY TASK FORCES

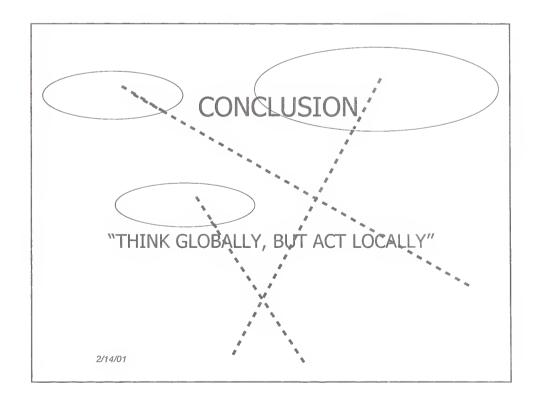
- IDENTIFY, DISCUSS AND DESIGN REAL LIFE IMPROVEMENTS
- PROVIDE MECHANISM TO ROUTE INFORMATION TO AND FROM NFSS
- BROAD CROSS SECTION OF REPRESENTATION
- RAISE THE LEVEL OF COMFORT, TRUST & COMMUNICATION .

2/14/01

"BASELINE STUDY" OF FOODBORNE ILLNESS RISK FACTORS

- FOOD FROM UNSAFE SOURCES
- INADEQUATE COOKING
- IMPROPER HOLDING TEMPERATURES
- CONTAMINATED EQUIPMENT
- POOR PERSONAL HYGIENE





Presented: Thursday, February 22, 2001

Karen Watt Past President, North American Farmers' Direct Marketing Association

SMALL FARM SURVIVAL: IMPLICATIONS FOR THE NEXT FARM BILL

Introduction

I am in my sixth year as a director of the North American Farmers' Direct Marketing Association representing the Northeast region of the United States. I recently completed two years as president of NAFDMA. In October of 2000, I completed five years as president of the Orleans County Farm Bureau and was then elected as a district director and presently serve on the NYFB Board of Directors. It is from that combined background that I present the following:

North American Farmers' Direct Marketing Association

The North American Farmers Direct Marketing Association is an organization promoting and fostering the growth of farm direct marketing by offering education, networking, and fellowship opportunities to its members.

The association is committed to:

- 1. Being a primary source of information on farm direct marketing.
- 2. Supporting sustainable growth of farm direct marketing.
- 3. Encouraging open dialog within all facets of the farm direct marketing industry.
- 4. Being a supportive public voice for our members and the industry.
- 5. Providing an umbrella organization for regional associations.
- 6. Encouraging the formation of regional and local associations.

NAFDMA has memberships from around the world. Our most recent Conference was held in Mesa, AZ in January with over 800 farm marketers from the US, Canada and England in attendance. Over 350 direct marketers toured markets for three days in the Southeast region of AZ and three busses toured the Grand Canyon area. One day of workshops was followed by over 35 sessions run concurrently over a two-day period with tracks such as greenhouse, farmers' markets, farm "edutainment", "value-added", and liability issues. USDA has long been a presenter at our Conferences. Many of our members also belong to State or Provincial Associations and attend State Conferences annually.

There are estimates of over 50,000 farms currently involved in some form of direct marketing in the US today, with 4,000 of them in my state of New York. The states bordering the Great Lakes, the Pacific Coastal, and Texas have the greatest concentration of direct farm marketers. In addition to on-site farm markets, there are approximately 3,000 farmers' markets across the country, ranging from very small inner city or rural weekly markets to full service, daily public markets in large cities. Growers of grains and other subsidized commodities seldom venture into direct or niche marketing. Most of the direct marketing farmers grow what are termed "minor erops".

Watt Farms and Orchards

Watt Farms is a 250A family farm owned and operated by my husband, Chris, my daughter, Lauren, and me. We grow cherries, raspberries, apricots, peaches, plums, pears, nectarines, and apples in 7 different locations in three townships in the Albion, NY area. These locations diversify our spraying, pollinating and ripening times, as well as lower our risk of storm damage to the entire crop. As you are all aware, the production of fresh fruit is very labor and investment intensive. We try to hand prune about 75% of our 45,000 trees each year. Each piece of fruit must be individually and delicately hand picked. Each orchard requires constant maintenance. We pollinate, mow, weed spray, irrigate, and attempt to control pests of all sizes, from deer to mice, from insects to other biological phenomena. These endeavors require a substantial investment in equipment, employees, as well as the investment in trees on well-drainaged land. Our costs demand that we gross much more than \$250,000 each year.

Our 250A farm is a rather common size throughout the Northeast and the Great Lakes region. There are thousands of similarly sized family farms growing fruits and vegetables for consumption primarily by the 22% of the US population living near the East Coast. Over the past decade the cumulative effect of decreasing commodity prices at the wholesale (grower) level accompanied by escalating costs of production, picking and shipping have been significant. To make the potential for profit greater, many farms like us have added direct farm marketing to their business.

The USDA National Commission on Small Farms

The Report of the USDA National Commission on Small Farms, dated January 1988, entitled "A Time to Act" focuses on farms with less than \$250,000 gross receipts annually. Nationally, there are 157,000 farms in the US with annual sales of \$250,000 or more. 72% of all commodities are produced on these farms. Another 190,000 farms have annual sales between \$100,000 and \$250,000, accounting for about 10% of production. 1.6 million farms report average annual sales of less than \$16,000, with almost all of their household income coming from off-farm jobs. In other words, of the close to 2 million farms in the US, 82% do not even gross \$16,000 per year.

Of New York State's 39,000 farms, only 22% have sales over \$100,000, but they operate 49% of land. New York farms, with sales of less than \$10,000, are almost 50% of total farms. I would suggest that there are many of those 157,000 farms with sales above that arbitrary dollar amount, which also need your attention. Most of them are family farms and are an integral part of the fabric, which keeps rural America vibrant and economically sound. What then are the implications for the over \$250,000 farms like ours? While the Commission focused on "small farms", but I would ask why farmers who gross over \$250,000 annually are less valuable in protecting and supporting rural communities?

There aren't only small farms and greedy corporations growing food in this country. There are many of us "non-commodity" growers in the middle of those extremes. Small to moderate in size, but large in terms of investment and costs. Most of the direct farm marketers are also growers of the specialty crops. What happens if these farms are discriminated against and excluded from consideration due to gross income? Who becomes the steward of that land? Who replaces the related jobs, technologies, and services dependent on these farms? How much of rural America in New England, NY, MI, Ohio, VA, PA dies?

The 80 page report on Small Farms is very interesting reading. As I read through the report I was nodding in agreement over and over again. What I did find interesting was the lack of reference to the typical Northeast, Great Lakes, East Coast type of farm involving fresh fruit and vegetable production. Most of the farms in these regions do not participate in Federal commodity programs and therefore, have no safety net like much of commodity production agriculture. As a fruit grower, I can tell you first hand that our industry is in peril.

The apple industry is on its knees. Cheap imports, an increasing number of both state and federal regulations, a lack of adequate trained labor, and rising costs of production coupled with lower prices have harshly affected profitability. There simply is no profit in growing and selling a crop anymore. There is a built in profit for the chemical manufacturers, the shippers, the packers, the brokers, the truckers, the grocery chains, and all the agri-service related industries, and we growers get the crumbs. Over the past five years even the crumbs have disappeared. We are the first to incur costs of production and are the last to get paid. In effect, we borrow money to operate our orchards through the growing season, and wait for payment to repay those loans and begin the cycle again. Beginning in the 1990's, repayment has been severely hampered and there is no reason to think this will improve.

The first policy goal of the Small Farms Report speaks of optimizing the labor and ingenuity of small farm operators using less capital-intensive investments. I sure don't know how that fits into the farming economy right now. Right now there are virtually NO commercially grown crops whose wholesale value has risen to keep abreast of expenses. We have all learned how to maximize production on less land but this does not translate into profit. We simply can't compete with the dumping of foreign produce at costs below US costs of production.

Our farm is within one hour of three bridges crossing into Canada. In 1999, \$38 billion of agricultural products came into the US across those three bridges. Only \$8 billion went the other way. \$38 billion at costs below our US farms' costs of production. The US farmer has borne the brunt of the balancing in the Balance of Trade. The US farmer has also done exactly what was expected of him or her for the past century. The drastic production changes required by the farmer of this decade and beyond unfortunately are on the heavy debt structure built up over the past 30 years or so.

Farm Debt

How do we continue to farm in downsized proportions with diversity and ingenuity and still pay off all the incurred debt? Certainly it requires PROFIT to pay down old debt and to pay for startup costs for new ventures. Is there a responsibility of the US government to all farmers caught in this deliberate, downward spiral of net back to the family farm?

Our family farm grosses close to \$1 million dollars a year. I know that Cornell University is looking to identify farms that fit the range of \$100,000-\$250,000 gross for a study. That income range is not the norm. I attended a forum last summer sponsored by Cornell University as a member of the Small Farms Task Group. How interesting it was that each of the examples presented as entrepreneurs were all over the \$1 million gross mark.

Our total farm debt is also close to \$1 million. In 1998 we lost our entire crop of apples on Labor Day, just prior to the beginning of harvest. It was a horrible storm that either sliced every apple or knocked it off the trees to the ground. An entire year's efforts were ruined and there was no way to pay for all the accumulated expenses, much less money needed for investment in the 1999 crop. Fortunately, we had crop insurance, but it only went so far. The insurance for so-called specialty crops is still being fine tuned and my husband and I, along with many other growers of specialty crops, have worked hard to help develop insurance policies to fit the needs of fresh fruit and vegetable growers. There is a long way to go and the clock keeps ticking with each new crop year.

The catastrophic Labor Day Storm caused an estimated \$8 million damage to the apple crop just in my county. About \$40 million in our Western New York Fruit Belt. If it had been one major company, like IBM or General Motors, there would have been much more concern. But spread out over 4 counties the impact to the press and the government officials is diluted by the acreage.

And so, how will we pay all the debt back on the accumulated expenses for this 1998 crop of apples? And then, what to use to begin the operations for the 1999 crop? USDA provided badly needed grants and loans, but there is a very limited potential profit to use to pay back the loans, when we can not grow and pick a crop in this country to compete with cheap foreign nation imports. Farmers of specialty crops have traditionally been fiercely independent, not requiring USDA and FSA help because there was a reasonable potential profit anticipated to be made if you just worked hard and long enough, grew excellent produce, and used that God-given ingenuity.

We farmers are used to natural disasters. But we have historically been used to enough profit in the good years to offset the bad economic times. Good economic years, however, do not seem to be on the horizon for the apple growers in this county, and it didn't take a natural disaster for the effects to be felt by all. This is a rapidly propelled man-made disaster --- a controlled disaster by imports. The debt accumulates, the youth walk away, and the land goes to the highest bidder.

To the tribute of Watt Farms, we are not dependent on apples alone. But what of the hundreds of apple growers who have done nothing wrong except to become more efficient and bare-to-the-bone raising of their crops? Or the onion growers, or the cabbage growers, or the milk producers--all farming small to moderate family farms. Just how much ingenuity can make their farms survive? Just how many "vertical integrated" operations can repay the debt and build anew? Just how many retail markets can thrive in any given area? The county I live in farms 147,000 acres. Just how many farm markets can my county of 40,000 people support? How many "niche" markets can start up quickly? How many "production" minded farmers can shift gears mentally and physically to become "entrepreneurs"? Are those who can't failures?

USDA has impacted the Land-grant University system to devise methods of helping energetic and diversifying farmers to take the vertical leap. We go to three farmer's markets each week in soft fruit season. We, of course, sell as much of our fruit at the farm as possible. We have a wonderful staff who has more ideas than we can ever put to practice, and I would love for you to see our operation. And while I hope to use the expertise of Cornell's Center for Food Entrepreneurship this year, we direct marketers also face some unique problems requiring help.

More and more frequently, our creativity adversely affects our town and village planning boards. The increase and expansion of farm direct markets have caused many zoning officials to require special permits, which limit the activities of the operator. Although USDA sees the benefits of farms making their own pies, jellies, ice cream and school and/or bus groups for "edutainment" or "agri-tourism", many communities do not want this type of farm "commercialism". Farmers are denied permits to do anything beyond growing and selling their own produce in its natural form on land designated as agricultural land. Due to "home-rule", each township reacts independently to a retail farm situation, and very often without apparent reason. The attempt of farmers to provide this stabile financial footing backfires in their own back yard. With the percentage of farmers dwindling in any geographic area, so is their seat on zoning and town boards, making the process more difficult.

For decades, my husband's love of orchards inspired him every day. He was raised on a fruit farm where he developed his love for planting and training trees and gained his knowledge of how to grow perfect fruit, far beyond any doctoral level. Today, I am sorry to say that love has withered. He spends far more time working on loans, crop insurance, debt repayment scenarios, lobbying efforts through Farm Bureau, and is frustrated by all of the pressures beyond our control. Attempts are now being made to create a safety net for specialty crop growers, but time is running out. Three orchards within 5 miles of my home went up for sale in January of this year. Creditors are drawing the line.

What needs to be done?

USDA cannot limit new initiatives to <u>ONLY</u> farms grossing under \$250,000. All farmers, regardless of gross, can and should benefit from any new technical, financial, regulatory assistance. Mid-sized farms definitely need emphasis from the 2002 Farm Bill also. Specialty crop producers are not understood and have been neglected by federal programs. Full time family farms, regardless of size, need assistance with capital investments to transition a farm to meet future production trends. Continual improvements in Risk Management strategies are critical and crop insurance for non-traditional crops must be quickly expanded. Pilot programs for dairy farmers as well as niche farmers must be improved and expanded to be realistic. USDA must work with each state to offset the agricultural tragedy, which is immediate. USDA is responsible for flexible farm programs needed through block grants to better meet diverse agricultural needs.

Market Loss Assistance Programs must be expanded in the minor-crop arena until long term solutions to the agricultural trade imbalances are implemented. Trade rules must be enforced and better negotiated for agricultural producers. Free trade is not fair trade. It is obvious that the labor-intensive crops grown in the US can not compete with those grown in economically deprived third world countries. While consumers enjoy cheap imported foods, the issues of food safety, national security, and the decline of rural infrastructure must be addressed by this Congress and by USDA.

Why is it that on each garment you are wearing today, there is a required label of origin? Since this has been deemed important enough to be a law in this country for clothing, why not for what goes in your mouth? Yet every effort to require identification of origin of produce has been rejected. As one example, apple juice concentrate flows in freely from China and other nations and then is blended with more flavorful American apple juice and the consumer is rarely informed of this. The apple juice and many other similar products are labeled as though they originated where bottled or processed. Why is there no mandatory labeling of origin? I have heard the response from government that the American consumer just doesn't care. Well, then, why do you think they are concerned about labels that rub the back of their necks? Does that make sense?

Watt Farms Country Market

Our venture into direct marketing began with very limited expense. We began our retail operation in 1986. It was entrepreneurism with a very tiny "e". We began in a \$50 used tent and also went to 3 farmers' markets back in the 1980's. We quickly realized that we needed to do more than just try to sell our fruit. Our capital investment in direct marketing over the past 15 years, however, has grown to over \$500,000. It takes quite an investment to interest people from suburban and urban areas who must drive an hour or more to spend time and money with us. We have to distinguish our market from all the other marketers in our Western New York Fruit Belt's thousands of acres of fruit. We are certainly not alone in attempting to retail fruit.

Watt Farms ingenuity and vertical integration have taken quite a path. In addition to selling our fruits in season at our market, at farmers' markets and directly to two grocery chains, we began making fudge and added an ice cream shop by 1994. Then came small gift and baked items as well as jams and jellies. In 1998 we added the Watt Farms Orchard Express Train to our farm with a 1½mile narrated tour of our orchards. We also offer U-Pick peaches and apples seasonally from the train. Customers can also U-Pick cherries, plums, apricots and raspberries close by the market.

We take thousands of school children on highly educationally structured tours every day each fall and give our train rides every weekend on our famous "Orchard Express". In 1999, we added a 4200 sq.' glass greenhouse and another 3200 sq. ft gift shop addition was created from apple storage area. We now have Sunday morning buffets, a lunch menu with an indoor seating area for 70 people. We have added some farm animals and a play area to round out a family's expectations.

Not everyone has the skills to be a direct marketer, nor are there always nearby populations for niche markets. Our retail business did not happen over night and it took a tremendous investment of money, time and effort on our part. Each year our customers expect more and we must impress every customer who walks in to our market. We must make every effort to exceed their expectations in order to expect a return visit. We must continue to invest and develop in our retail operation but this is becoming extremely difficult due to the lack of profit from our commercial apple operation. Monies from the market must go first to offset the losses in fruit production and must be used to keep debt repayments current. Commercial bankers are reluctant to lend any funds to agricultural and agriculturally related businesses.

FARM BILL - A SOUTHERN SPECIALTY CROP PERSPECTIVE

Presented: Thursday, February 22, 2001

Carl B. Loop, Jr.
President, Florida Farm Bureau Federation

It is with great pleasure that I am here today, and I especially appreciate the opportunity to participate in this Outlook Conference. I am Carl Loop, Jr., President of the Florida Farm Bureau Federation. In my real life I am a nurseryman. I am President of Loop's Nursery in Jacksonville which I founded in 1949. Loop's Nursery is a family business that specializes in providing flowering plants to the wholesale market. However, in my talk with you today I am representing Florida Farm Bureau, and more importantly, Florida's diverse agricultural industry. I have also served as the Vice-President for American Farm Bureau and currently serve on the Executive Committee and the Board of Directors.

As a nurseryman I have had little to no personal experiences with the Farm Bill. About two years ago I served as the chair for the American Farm Bureau Farm Bill Study Committee. At that point I began to see the complexity of the Farm Bill and both the intended and unintended consequences of its provisions. Our American Farm Bureau study committee looked at a variety of options, and in fact looked outside the box in developing the report. The report was then sent to the State Farm Bureaus and on down to the county farm bureau level for discussion by farmers.

We kept the discussions broad to determine what the agricultural community wants in the next Farm Bill. Opinions ranged from the need to develop a Farm Bill that was more social in nature to one that emphasizes the pure free market. We asked if there should be a guaranteed income component such as 175 percent of the poverty level, or whether farmers should compete in the world market with no safety net. Let me tell you that this process generated some interesting discussions and debates. My presentation will reflect those discussions that have been held in Florida as well as the ultimate policies of Florida Farm Bureau.

Before we get into the Farm Bill discussion, I would like to review with you some of the facts about Florida agriculture. We are a state with a population of 16 million, and host an additional 40 million visitors annually. Most people think of Florida as a tourist mecca with theme parks and tropical beaches. It has been reported to our Legislature that 75 percent of our population lives within 30 miles of the coasts. We have approximately 16 million acres that are privately owned and are either in agriculture or forestry. The economy of Florida has been characterized as a three legged stool. Those legs are tourism, agriculture and construction. Tourism is our major industry closely followed by agriculture. We are a very strong agricultural state with a growing agricultural economy. We produce over 240 commodities with new ones coming on line every year. In the last three Censuses of Agriculture our number of farms have been stable. We have a large number of small acreage, high value, specialty crop farms. The latest calculations of agricultural receipts puts us as number five nationally with just over seven billion dollars in receipts. If you include the forestry component that is not calculated as a part of the total ag receipts, you would more than double that to roughly 15 billion dollars generated by agriculture and forestry. Quite an economic impact on the State of Florida and our citizens! This doesn't speak to the economic impact of our green industry that services our homes, theme parks, golf courses, recreational areas, public green spaces and parks. Our equine industry has a significant economic impact, whether it be through pari-mutual wagering, international polo matches, or simply hobbyists. Florida agriculture

serves as a multi-faceted driver for the benefit of the citizens of our state. Whether considered in economic or quality terms, our industry is important to Florida. Our agriculture is a mixture of program and non-program crops that all play an integral role in our agricultural economy.

I mentioned that we produce over 240 commodities. Many are truly small in scale and may only account for a few hundred acres of total U.S. production. It's important to understand that these crops develop because there is a market for them. We are a major producer of crops for several ethnic groups – for example, oriental vegetables and tropical fruits and vegetables for the Cuban, Haitian and other Caribbean islanders.

Our major sectors are citrus with over three billion dollars in revenue, followed by our nursery sector at almost two billion dollars, and then our vegetable sector at about a billion and a half dollars. We also have a significant beef, dairy and poultry sector that accounts for just over a billion dollars. One of our most recognized crops is our citrus production. We produce almost 3 times the amount of citrus produced by California, Arizona and Texas combined. Florida has just over 800 thousand acres operating in a global market. In excess of 90 percent of our orange crop goes to processing with a significant amount in the export channels to Europe and Japan. Our grapefruit crop is fairly evenly split between the domestic and export market.

Our fresh perishable vegetables move up the eastern seaboard and through mid-America and into the Canadian market. Ninety-five percent of the U.S. tropical fish production occurs in Florida with shipments throughout the western hemisphere. We are the major producer of foliage plants, and the odds are that if you have plants in your home, they were in Florida at some stage of their production. If you gave flowers for Valentines day, while those roses weren't from Florida, the cut greens in the arrangement were. I could continue with example after example of Florida agricultural products that have a direct impact on you. The bottom line is that a Florida farmer produced and marketed that product. While the domestic market is the only market for many specialty crops, we are active in the export market. We export just over a billion dollars of agricultural products annually, which is about two percent of the U.S. total agricultural exports. We rank 17th as an export state.

To put that into a more proper perspective for this conference, I should ask how the Farm Bill has impacted those producers. The answer to that is--very little. Those crops that are under the Farm Bill such as cotton, peanuts, sugar, feed grains, dairy and honey are under terrible market pressure with little chance for profit, just like those same commodities in other states and areas of the country. While we rank fifth in agricultural receipts, we only receive about three tenths of one percent of federal farm payments. That accounts for about one percent of our total agricultural receipts. Our specialty crop producers are proud that they produce outside of governmental programs, although they do enjoy some other benefits under the Farm Bill.

Currently, we also see many specialty crop producers under market distress. The difference in specialty crops is that when I produce an Easter Lily, it has no value the day after Easter. I must build a market before I can produce for it. In marketing and shipping perishable crops, distant markets or export markets are not feasible or realistic because of time and transportation. My risk management strategy, or safety net, consists of managing in such a way that I am profitable enough to save for the poor market times and not over produce or speculate with my production. Profitability, for producers of specialty crops, is defined in the long-term, not just year-to-year. One of our vegetable producers told me, "I used to plan on a profit one out of three years, now it's one out of five, and I'm not sure that I can stay in business with that." We understand the economic axiom "where there is no risk, there is no profit." The true sustainability of agriculture lies in its profitability.

As we discussed the Farm Bill in our policy development process, and with other commodity groups, several things began to take shape. The amount of government payments that it takes to shore up farm income in other parts of the country causes great concern. There is a growing recognition that something is drastically wrong if the national agricultural economy is suffering at a time of unprecedented growth and strength in the other economic sectors. Our members are concerned about the future of those farmers. Many feel that if the promises of the 1996 Farm Bill had been kept regarding regulatory reduction and market development, many of these problems may not have occurred. We are experiencing the same type of structural change and consolidation in agriculture with which other parts of the country are struggling. The Farm Bill can't solve all of our wide ranging problems, but there are some things that it can do to help agriculture. Our members support a national agricultural policy that insures a strong, economically viable agricultural industry. We support the continued use of the Commodity Credit Corporation in providing program support. We also support the re-enactment of programs for peanuts, sugar, cotton, dairy, honey, and other traditional crops.

Our members feel that the basic budget for the Farm Bill should be increased. This will be a necessity if program and non-program crops are to be served by this piece of legislation. We are not sure at what level that budget should be set, but considering history, the budget should be expanded to benefit all producers. Our specialty crop producers have told us that they don't want a loan program, they want a market that works. There is discussion about market loss payments or some other mechanism to supplement the specialty crop producer's income. Those producers that support an income supplement are in a minority, and no consensus has been reached. On the whole our producers feel they would be better off financially if they stayed away from governmental payments and the market was not manipulated through governmental actions such as trade agreements [Providing access to imported products in our domestic markets has disrupted these markets. These domestic markets were built by the domestic industry through the use of grower dollars and check-off funds. In many ways tariffs have served as specialty crop "programs" that benefited growers in the domestic market place. A domestic market was built around that tariff structure, and as these tariffs were negotiated away, growers received no consideration for the loss and market loss occurred], currency exchange rates [the peso devaluation that came along with NAFTA, as well as the current Canadian currency valuation and the relative strength of the U.S. dollar, give added financial incentives for foreign products to move into the U.S. market], costly regulations that build inefficiency into our production costs [it's not just the federal regulations such as the field sanitation, wage and hour, and the Worker Protection Standard, but also state and regional requirements for 1) land set-asides for water retention, which may idle 20-30% of potential grove land or vegetable fields, 2) state labor regulations that are duplicative of the Federal, 3) and even to the county level regarding paving of parking areas], or programs that send false market signals [1] poorly thought out crop insurance programs like the watermelon pilot, 2) replant provisions in crop insurance that moves the production harvest into another harvest market window or 3) CRP requirements for thinning trees at a specific time in the future that coincides with a depressed pulpwood market].

Our members are also very concerned about the threat of invasive pests. We are currently in an eighty million dollar state/federal funded eradication program for citrus canker. Growers are investing an additional multi-million dollar effort to keep the disease out of their groves. Homeowners are having trees forcibly removed from their backyards for the protection of agriculture, and are they not happy about that. Florida is not alone in this. Both Pennsylvania and California are fielding major eradication programs for invasive pests. With increased trade and travel, Florida and several other states serve as sentinel states for the introduction of invasive pests. An Invasive Pest Title could be included in the Farm Bill. That would be helpful not only for our state, but for other sentinel states as well. This title

should address the establishment of a working fund to send immediate financial aid to states to mount an immediate and effective eradication program. There needs to be a stronger detection and exclusion effort in the sentinel states. We have realized that these pests don't just show up on farms. They initially escape from ports of entry into the urban and suburban back yards and public parks which serve as a source of infestation for farms. Invasive pests don't become an issue for producers until they leave the area adjacent to the port of entry. Up to that point it is everyone's problem. USDA/Animal Plant Health Inspection Service should be given the single mission of protecting our borders from invasive pest introduction. Currently, APHIS has the mixed mission of facilitating trade and protecting our borders. We think the trade issue is better handled through USDA/Foreign Agricultural Service because it better fits their mission. Phytosanitary concerns are legitimate concerns in trade discussions. We believe that APHIS has been forced into a position that creates a major conflict of interest. There is also conflict between USDA and other Federal agencies. As an example, U.S. Fish and Wildlife Service has responsibility for imports of non-domesticated animals. These animals share the same vectors that carry diseases, such as heartwater disease, that could affect our domestic livestock. USDA should have the authority to consult and review with US/FWS regarding risk based guidelines for importation of nondomesticated animals.

Another conflict is with US/Environmental Protection Agency and the process of getting label approval for the use of pesticides in an eradication program. Such eradication programs should have precedence for label approval and new product development. It is to everyone's best interest to respond quickly and have an eradication area as small as possible.

Earlier I mentioned our members' concerns about markets. We are supportive of programs that develop markets at both the domestic and international levels. These programs should enhance U.S. producers' market access and maintain their market share. It is my understanding that the Market Assistance Program (MAP) was instituted to meet competitors in foreign market places after U.S. producers had established themselves in those markets. This was to counter direct and indirect subsidies paid by foreign governments. We think that all markets should be guarded in this way. The current dispute resolution process is not agriculture friendly. The process is designed for industries that have a limited number of manufacturers, but not for the hundreds of producers with very limited market windows and differing production systems. Our members agree that if a dispute resolution process is in place, then it should be made usable so that individuals can have their day in court. The cost to file a section 301 or 201 for trade relief by individual farmers who may have only a three week market window makes such a filing a practical impossibility. It would be appropriate for USDA to monitor imports, and if certain volume or price triggers are met, to then bring an investigation to bear with United States Trade Representative.

Perhaps this is the appropriate time to bring up Country of Origin Labeling. I realize that many of you may agree with the trade red herring that holds such labeling would create a massive rejection of our products in foreign markets and lead to WTO challenges. That's just not so! Let's look at reality. Most of our trading partners already require such labeling. In the U.S., fresh produce and meat are about the only consumer products that don't have this requirement. After all, if I can see that my shirt was made in the Philippines, my shoes in Brazil, and my television in Japan, why shouldn't I be able to see if my tomatoes are from Holland or Mexico? Now, before anyone raises objections about cost of implementing or the need to label individual bananas and grapes, let me tell you that Florida has had such a consumer labeling regulation for twenty years. We can have workable solutions to all of the concerns with minimal costs. If all grocery vendors had to comply with the same requirements, then none would have an economic advantage.

Traditionally agriculture has relied on research through land grant institutions to stay on the cutting edge of technology. This public research has produced an industry that incorporates and relies on technology to maintain its high level of productivity. We are asking for increased funding for agricultural research that will focus on specialty crops and increased labor productivity. We have seen a decline in funding for public based research and a corresponding decline in technology development and transfer to the specialty crop sector. With the increase in the private sector research and the proprietary nature of the results, we are very concerned that, because of the relatively small size and scope of the specialty crop industry, we will see a further decline in research and the development of technology that is affordable for farmers.

Earlier I mentioned my and many other specialty crop growers' risk management plan. Farmers need additional risk management tools. While there was an effort to address this last summer with the crop insurance legislation, it just doesn't go far enough. Specialty crop farmers cannot rely solely on crop insurance that fits the Mid-western pattern. Risk management programs should not distort the marketplace; many of the crop insurance policies do in fact stimulate production. We support a broad approach that may place the responsibility on the grower rather than the government. We are looking at a wide variety of possibilities that could include income assurance, tax credits, self funded programs, government matching programs or other voluntary programs. We also think that there should be some changes that reduce the politics in the disaster program, yet truly address disasters. We are supportive of modeling a disaster program after the Federal Emergency Management Administration (FEMA) program. In this way the funding would already be established. Authority should be given for this ag emergency fund to go to Commodity Credit Corporation (CCC) if major disasters deplete the trust fund. These funds would go not only to crop losses but also to replace farm buildings, roads, erosion control structures, environmental structures such as lagoons and other features of this infrastructure. This ag emergency fund could be used to partner with FEMA and USDA/Rural Development Agency to aid rural communities and infrastructures. We see this as being utilized only for major catastrophic occurrences such as floods, hurricanes, or other devastating events.

Finally, I would like to address the Conservation Title of the Farm Bill. We support voluntary conservation programs that are made available to all farmers. These programs should supply increased funding to those states with demonstrated environmental needs. We are supportive of payments going to growers for implementing and maintaining Best Management Practices (BMPs) if those programs are voluntary. We are supportive of the existing conservation programs; however, we would like to see some changes that are more reflective of specialty crops. The criteria should be broadened and funding increased to include more farmers. We think that the programs should not operate exclusively of each other. These programs should be able to partner with an individual so that more incentive funds (value) can be brought to bear to solve environmental problems. Many of the programs do not consider the value of land that specialty crop producers farm. In Florida our top three counties for agricultural receipts are Palm Beach, Miami-Dade and Hillsborough. All three of these are metropolitan counties with high land prices. If we are to have viable incentive programs and maintain agricultural lands, we must move past an artificial limit such as the \$10,000 annual and \$50,000 over five years that the Environmental Quality Incentive Program (EQIP) requires. Our members have expressed some interest in a program that may provide benefits (payments) for maintaining BMPs over a five year period. Many of our members have expressed interest in such a program being developed. I have had people ask what a \$50,000 payment would mean to a tomato farmer. It would probably mean the same thing as a similar payment to a grain farmer. At the end of any given year, sustainability is the chance for that farmer to have that one-year-in-five that makes for profitability. If such a program were included in the Farm Bill, we think that it should be tried as a pilot or made available in both program states and non-program states. We also would hold our hand up in volunteering to be a pilot state if that opportunity occurs.

I have covered a wide range of topics and subjects. As I close I would like to remind you that these points have been raised through a discussion process with our producer members. What we have found is that many of our growers don't fully understand the letter or role of the Farm Bill. Many of our specialty crop producers see it simply as the direct payment mechanism for grains; others recognize the conservation element. However they see it, I can assure you that specialty crop producers are interested in the Farm Bill. With the NFACT (New Mexico, Florida, Arizona, California and Texas) Coalition of state Departments of Agriculture conducting listening sessions in their respective states on the Farm Bill, I think it is a safe bet to say that specialty crop producers will have a higher profile in the negotiations on the Farm Bill.

INTRODUCTORY REMARKS NEW VALUE-ADDED LIVESTOCK AND POULTRY INITIATIVES

Randall E. Torgerson, Deputy Administrator Rural Business-Cooperative Service, USDA

Major issues impacting farm operators throughout the country include the rapid structural change occurring at the farm level that has threatened the independence of farm owner-operators, the diminishing share of the consumers' food dollar claimed by farmers, increased global competition, and the growing concentration in food manufacturing and retailing that limits markets. Buffeted by these factors and concern over growing limits to market access, producers in the livestock and poultry industry have increasingly turned to various forms of group action to shore up their deteriorating market position.

The use of value-added strategies has been adopted by many producer groups realizing that they need part of the marketing margin between the farm gate and the consumer's purchase if they are to survive as independent producers. Cooperative marketing represents a means of vertical coordination among independent farm units through which they can engage in ownership of downstream activities and share in earnings. It represents a means of garnering a modicum of marketing clout to compete with corporate interests attempting to dominate production agriculture. Furthermore, it presents opportunities to improve product quality and consistency sought by end users. In short, effective group action strategies are a means for producers to guide their own destiny and collectively secure their independence in era of increasing forms on nonmarket coordination.

Adoption of this strategy has come slow to these industries. Producers have traditionally prided themselves with their independence and have not even considered group action as an alternative course of action outside of live marketing activity, and a few successful poultry marketing efforts such as Gold Kist and Norbest. A parody can be drawn with the image of the Marlboro man in the ads -- riding free and easy in the saddle, breathing lots of fresh air, and dependent upon no one but himself. If something adverse happens to him, well that's just the way it was intended to be, i.e., very fatalistic thinking. But this self-ordained outlook has been changing and changing rapidly as many livestock and poultry producers recognize that it is the eleventh hour for them in their respective industries. Faced with demoralized prices, increased contracting (some of which are the piece-wage type), loss of markets due to processor consolidation or relocation, and consumer concerns over product quality and food safety, progressive leaders in these industries have determined that there is more potential in working together than continuing to act as isolated entrepreneurs. They are organizing to bring home more of the marketing margin to them as producers by organizing new value-added cooperatives.

Congress has recognized the need for these new initiatives and has supported them through various technical assistance, grant and loan guarantee programs. The Cooperative Marketing Act of 1926 -- soon to celebrate its 75th year -- established a Cooperative Services unit in the

USDA for doing research, offering technical assistance and education/information on effective group action efforts. The 1996 Federal Agricultural Improvement and Reform Act (FAIR Act) extended the Department's Business and Industry Loan Guarantee program to include producer loan guarantees for stock purchase in new value-added cooperatives. The Rural Development mission area has further established a loan guarantee set-aside within the Business and Industry program in recent years for use by cooperatives. Cooperative Development Centers have been established through the Rural Cooperative Development Grant program to provide another source of technical assistance to new startups throughout rural America. And in the recent Agricultural Risk Protection Act of 2000, Congress established a value-added agricultural product marketing development grant program to further help producers establish value-added business activity.

Today, we have the opportunity to hear and learn from the experiences of new producer initiatives in the pork, lamb, beef and turkey industries. These are individuals who have devoted considerable thought and leadership to the needs of their respective growers and who have developed plans of action enabling a better future for their industry groups. Perhaps most importantly, these new initiatives represent examples of proactive efforts to fight concentration in their industries and to provide members with continued market access.

THE PORK AMERICA INITIATIVE: LOOKING BEYOND LIVE HOG SALES

Presented: Thursday, February 22, 2001

Jim Lewis, Director Pork America

Pork America is a national cooperative, formed by and for independent pork producers who wanted to create a better future for their families and their rural communities. These producers represent hog operations of all sizes. They are often referred to as "independent" producers or operators of "family-owned" hog farms. What makes them unique is that they are men and women who bear the significant financial burden and risk of hog ownership, but are not in the slaughter business.

I am one of the producers who helped launch Pork America and I'm here to give you a glimpse into the future of the pork industry. This is a future that we believe is being defined by Pork America today. It is truly a unique initiative that is designed to help producers be successful in ways that extend far beyond hog sales.

In the next few minutes I will review some of the events leading to the formation of Pork

America, its structure and strategies, and where we go from here. When finished, I hope you will

agree that pork producers have great opportunities ahead and that we have a solid plan to capture them.

To understand Pork America it is important to understand the industry and marketplace trends that led to its development. Most of you here know that live hog prices took a dramatic dive in 1998-99 when prices dropped to levels lower than those seen even in the Great Depression. Ron Plain, a noted economist from Missouri, estimates that producers lost \$4 to \$5 billion in equity. Many were driven from the business. Those that survived were left to face a market landscape vastly different than the one they came to expect over the previous two decades. There are many factors that led to this

change. Two important ones are 1) reduced slaughter capacity and 2) the explosion of packer marketing contracts.

An inverse relationship formed between slaughter capacity utilization and hog prices in the late 90's. In the fall of 1998, due in part to the closing of the Thorn Apple Valley plant late that summer and a Canadian labor strike that sent thousands of Canadian hogs into the U.S., capacity utilization reached record highs at a time when we produced a record number of hogs.

This combination proved deadly for prices, particularly with the majority of hogs being delivered under packer contracts. These contracts were designed to help the packer stabilize his hog supply and help the producer reduce price risk. The result, however, has been the loss of a meaningful spot market for establishing fair market value for hogs, and this thin spot market is often the basis for determining hog values under packer contracts.

Neither of these situations has changed. I heard a forecast recently that we may produce 104 million hogs next year, two million more than in 1998. The future of commodity hog production does not look bright. Decades of predictable production and profit returns from cash hog markets are now a memory.

Yet, demand trends tell a very different story. We have increased demand in the domestic market. Retail prices set record highs the first seven months of 2000. We became a net exporter of pork in 1995 for the first time since the early 50's and have grown in tonnage every year since. Clearly people want what we produce.

Out of this contradiction of rising demand and lower producer prices emerged Pork America, a business that was formed as a result of recommendations from a National Pork Producer Council task force charged with investigating opportunities in the pork chain for producers beyond the live hog market. With the help of USDA Cooperative Services funds, SJH, a food industry consulting company, conducted a feasibility study for the task force. Principle, Don Senechel, summed up the results of their work by saying, "This plan has more upside potential than any other plan SJH has

worked on". After considerable study the task force determined that opportunities do exist for those able to deliver high-quality, consistent pork products – not HOGS. To survive and go on to succeed would require pork producers to reinvent themselves, their products and/or their approach to doing business.

With significant money being made up the channel at the growing expense of hog farmers, it was time to radically change the industry for pork producers who have consistently carried nearly 80% of the capital costs of this industry on their backs. By going up the "value chain", producers could take advantage of the profits others were enjoying. But, that was and is a totally new concept for hog farmers to understand and accept.

When we at Pork America talk about the value chain to our producers, we like to say that every time you put a knife in pork the value goes up. When value goes up, so does the profit margin. If producers participate in that process, we can capture those profits. In 1998 the average cash value of a live hog was \$80. When sold at retail, that same pig was worth nearly \$400 in meat products. Pork America is specifically designed to get as close to consumers as possible where value multiplies profit margins! Going after those profits isn't easy and isn't without some risk. But, as shareholders, our producers have agreed to share in the risks in order to reap the rewards of a cooperative value-added enterprise.

The concept of accepting calculated risk is an important one. It is the price of forward motion and success and our shareholders accept that. We recognize that as producers we aren't experts beyond the sale of live hogs. We take great pains to clearly define and continuously revisit our weaknesses to ensure that we identify the skills, people, expertise and information we need to diligently evaluate and complete any and all business strategies, plans and deals. We will be vigil in keeping the quality of our company as we develop. And, that means we will always seek to hire and/or align ourselves with people who have vision, passion and knowledge, as well as well-planned, new

ideas for entry into the pork meat sector. It is both a requirement of success and a responsibility we owe to our shareholders.

The keys to success in these types of ventures come from good management, a thorough understanding of the industry, and significant control of at least one vital aspect of the business. For Pork America, that one vital resource is the control of millions of pigs - regionally through our linked local groups, and nationally under Pork America's umbrella. The beauty of the umbrella concept is that the organization provides a seamless transfer and sharing of information, resources, and support to help all producer shareholder ventures to succeed and enhance each other without competing with each other.

Pork America is not alone, but it is unique to the pork industry. There are examples of successful new generation producer cooperatives operating in other commodities. For example, in North Dakota, 1,100 member wheat growers formed Dakota Growers Pasta Company in 1992 and is now the third largest pasta producer in North America. Equity shareholders in the company have seen continuous stock appreciation and they are paid market price for the wheat they grow and deliver to the plant. Over the last five years, they have been paid dividends as high as \$1.00/share. The plant was originally designed to grind 3 million bushels of durum wheat. It now grinds 12 million bushels to produce 450 million pounds of pasta annually. The pasta is sold in foodservice and ingredient channels as well at retail under Dakota Growers' own brand and as private labeled brands.

Other pork initiatives are forming but none incorporate all three of the vital tenants of building a successful business today which include: 1) being driven by customer relationships and consumer value; 2) being shareholder designed and directed and accountable; and 3) being profit-focused.

Business must be built equally on CUSTOMER RELATIONSHIPS AND CONSUMER VALUE to succeed today. Relationships exist when suppliers and buyers define and meet mutual expectations. Success comes to those who exceed those expectations. These relationships are based on the trust that you will deliver on time, every time, as agreed. Trust turns relationships into

sustainable commitments able to withstand economic setbacks and marketplace interruptions. Trust is the key asset to being successful in a relationship-based business environment and studies show trustworthiness is an asset that is naturally attributed to farmers.

If hog producers can be trusted to deliver quality, consistent product to customers and markets whose needs are currently not being met, they have a solid foundation to build on. And, we know there are customers who do have unmet needs. As markets globalize, ethnic and specialty markets are sprouting everywhere. The first company to meet these value-driven gaps with value-based products and services takes home the profits. For example, we know of a meat processor who told us he couldn't improve the quality of his products without being able to secure a supply of meat that was consistently high in quality. Price was not an issue for him. It's all about value. Providing value boils down to a simple, fundamental formula. Quality + Consistency + Trust + Service = Value. The higher the value, the higher the premium, the higher the profit margin.

Second, it's a PRODUCER SHAREHOLDER DESIGNED AND DIRECTED organization.

The critical link between creating value and capturing profits is the producer shareholder. Pork

America shareholders not only share in the risk and the profits that come with that investment, they
share in designing how marketplace needs are going to be met. And, maybe most importantly to our
consumers, they agree to be accountable for helping to meet those needs with environmental integrity
and high standards for farm operations as well as product quality. Quality starts on-farm. Sustained
profits can only come from sustained quality inputs. Producers know that more than anyone else.

Third, its focus is to BRING PROFITS BACK TO SHAREHOLDERS. Pork America is designed so that producer shareholders have a wide range of option to participate in this value-driven business. By sharing the risks, they minimize them. By voting and participating as shareholders they direct the company and steer its decision-making. And, by investing in Pork America business ventures, they can build equity in their futures and the futures of their rural communities.

While the model and the concept are fairly straightforward and logical, getting shareholders to stop thinking like hog farmers and to begin thinking like competitors in the pork business is revolutionary, to say the least. Even more daunting, was to convince producers that they had the resources to compete in the pork business. That's where Pork America comes in. Before we existed, producers didn't have the size, scale, expertise, meat business relationships and dollars to consider doing business this way. Now, together, they are able to unite and reinvent the way they do business with the support and skills to succeed.... to THRIVE, not just SURVIVE.

The Pork America model is in place and on track. Significant work has been done over the last 12 months to put the expertise, relationships and support in place to get the job done. Looking out over the next 12 months, we expect to hit 3 major milestones.

First, we plan to operate a proof of concept plant. We are looking for a small, existing facility to buy and run as sort of an "incubator" that helps us demonstrate we can meet customer needs. We need to have product to "show to sell" and a place to get that done. With this plant, we will also be able to conduct research and development, as well as generate valuable production and processing information to achieve product consistency and quality. And finally, it will be a revenue and profit generator to help attract more shareholders to build our business. The plant will be small but it will be an important first step in entering the meat business.

Second, we are looking at operating a full-scale, state of the art processing plant. We are moving forward to identify the best way of owning and operating our own facility to convert proof-of-concept ideas into full-scale businesses. While this is a very real option, we have made it clear that we will not secure a site until we have a significant portion of the meat sold up front.

Lastly, we will negotiate partnerships, joint ventures and co-marketing relationships. Because our goal is to move as close to consumers as we can, working with others may be the most efficient way to get there. There are retailers and processors who can't get the products they need to meet customer expectations. As a result, they are losing sales. They now see alliances with producers as

beneficial, recognizing that the producer holds the key to meeting and delivering supply and value expectations. We can create win-win relationships with businesses with the same philosophy.

Extensive research and development provided by USDA and several noted industry consultants have helped us define the strategic direction Pork America must take to make it successful. A critical element to being successful is our ability to control, participate in, drive or create pork food activities on a very significant scale at the top tier of the industry. That challenge is great, but achievable. To accomplish these goals we will need to work in partnership with private and public sector groups to secure the funds and the expertise to fully develop these goals. Funds from a cooperative agreement between NPPC and USDA have been vital to get Pork America where it is today. Congress has authorized additional funds for efforts like this. These funds can be extremely important to the success of industry-changing businesses like ours. We're not looking for handouts, but rather a hand up to develop businesses that offer real, sustainable, and long-term solutions to the problems facing agriculture today. We hope you agree and support these initiatives.

There are many who want to see producers succeed. The very future of agribusiness and what we call the "family farm" is at stake. We see the need as CRITICAL, the time frame as IMMEDIATE. The benefit of building a solid foundation for producers to thrive and grow in the future has farreaching benefits to society, to our communities, to consumers, to agriculture and every segment of industry in the U.S.

In summary, I want to emphasize there is enough evidence to support the fact that commodity suppliers can ONLY compete on price. Producers can no longer produce their way to profits. If they raise more, they won't have more. To revolutionize the industry meant we had to revolutionize our thinking. By combining and unifying our resources under one banner designed for and by producers, we can successfully move up the food marketing chain to access the profits generated by value. And when we do that, we will have reinvented the future for hog farmers who want to compete and profit in the meat business as shareholders in Pork America. We aren't out to FIX the pork industry for

producers. We are out to take advantage of the pork industry only for our shareholders. We could not have come this far without USDA support. And, we know it will take their continued support as well as the backing of policy-makers and regulators to help us succeed. With the help of all of those who believe the American producer and his role in our country's future, we will succeed in helping producers own and direct their future.

We know we are on the right track to helping our producers when we hear them say, "if not Pork America, who? If not now, when,"

Presented: Thursday, February 22, 2001

U.S. PREMIUM BEEF SELLING MEAT AND MEALS INSTEAD OF CATTLE

Steven D. Hunt Chief Executive Officer U.S. Premium Beef, Ltd.

Thank you for this opportunity to come before you once again to provide an update on the success of our Company and plans for the future. As many of you are aware, U.S. Premium Beef (USPB) was formed back in July of 1996 as a closed marketing cooperative made up of cattle producers who organized with the common mission to "sell meat and meals instead of cattle".

Winston Churchill once observed, "No revolution was ever fought and won behind the battle cry, we must reach consensus." As producers we must break out of the commodity mold and move toward the marketing of value-added products. This movement of developing creative marketing practices is at times neither popular nor easy. For USPB, our shareholders not only risked their hard earned equity, but withstood political fall-out from the very people who have been the most vocal against our current marketing practices.

I urge USDA and our lawmakers to listen to a broad sampling of producer input regarding such issues as limiting marketing arrangements between packers and producers and producer contract protection. We risk inadvertently squelching the very opportunities innovative producers have been fostering to move into a value-added category.

It is important to realize up front that not every producer-owned venture has reached fruition or succeeded. In fact, we as producers have historically experienced limited success in owning businesses outside of the ones we manage daily. The reasons range from over-optimistic feasibility analysis, lack of practical vision, lack of expertise, improper Board/Management roles, becoming too political, improper or limited due diligence, too many chiefs and lack of lender support. It takes a tremendous amount of discipline

in order to avoid these pitfalls. As we were developing USPB, we even resorted to such economic disincentives as fining an individual \$100 each time planning discussions deteriorated to a political focus. There are a thousand ways to put a producer owned cooperative venture together wrong and only a handful the right way.

The founders of USPB were motivated to pursue our venture by one thing; FEAR. Fear is a great motivator. The fear of being a highly invested participant in an industry that had lost market share for 20 consecutive years. The awareness that under the current marketing system, the economic signals were to buy the cheapest, poorest animal that walked the face of the earth and feed him until a feedlot bundled him with entire showlist and sold at one price. If the consumer paid General Motors the same price for Chevys as Cadillacs, they would stop manufacturing Cadillacs. The beef industry has too many Chevys because of our broken marketing system. We also feared that under an extremely segmented marketing system that independently, we lacked the ability to realize a competitive price.

Our fear motivated us to identify several keys to a successful beef industry. First, we must implement a value-based pricing system where there is economic incentive to produce an animal that the consumer wants. Second, the producer must have the knowledge, carcass data, to effect change. And thirdly, the producer must have ownership beyond the pen gate. We must move the price discovery point where the consumer purchases our product. Only then will the producer realize full value for their product.

From this, we developed a mission. Our mission in USPB is to profitably sell meat and meals instead of cattle.

The USPB concept was evolving into an integrated strategy. Historically, producers have viewed vertical integration with much skepticism due to the model developed in other species such as poultry and pork. In these industries, vertical integration was typically top-down. However, by contrasting the beef industry to other species you see a dramatic difference in the ability to concentrate production. In swine and poultry, concentration is feasible because the cheapest feed source, small grains and concentrated protein sources, is mobile. However in beef, cattle are most efficiently grown through he utilization of the grass roughage that is geographically dispersed throughout the United States. Therefore there is a limited ability to efficiently concentrate beef production. This results in a tremendous

difference in capital investment in production assets. Universities estimate that the average investment in production assets per cow/calf unit is between \$2000 and \$4000. This is substantially higher than the cost of processing, which could run as high as \$200 per carcass unit. Contrast this once more to pork and poultry where due to the ability to concentrate, the per-unit cost of production is comparable to per unit cost of processing. It is more likely in these species that vertical integration would occur top down. Now, how likely is it that a processor will vertically integrate downward into livestock production ownership in the beef industry? It is highly unlikely a processing would make this level of investment. However, if you are a producer with over \$2000 per animal unit invested, how likely is it that given the opportunity, you would invest an additional \$200 to sell meat and meals instead of cattle? This was the point when we decided, USPB could and should work.

When we began exploring the development of USPB back in the fall of 1995, our hopes were to have a plan to take to producers within one year. We were wrong. We incorporated on July 1, 1996 and began developing a membership base, exploring processing options and lining up debt financing. We eventually reached a tentative deal with Farmland Industries in the form of a letter of intent on July 1, 1997. This led to the introduction of a stock offering on September 1, 1997. On November 1, 1997 we closed the first stock offering raising \$38 million in producer equity. We subsequently purchased a partnership interest in Farmland National Beef on December 1, 1997 and delivered our first animal on the very same day.

The acquisition can be broke down on a per-head basis as follows: The cost of acquisition was \$104 per head. We raised \$55 per head/share of producer equity and borrowed \$50 per head of capacity. One share held the right and obligation to deliver one head of finished cattle per year to the processing facility and a pro-rata share of company earnings.

While exploring processing ownership options, we considered all alternatives including building, a buy-out and joint venture. Our due diligence of the packing industry revealed many things. Many of which were in conflict with the producer perception. We discovered there was a difference in profitability, there was intense competition between players, there were failures even among large sound financial participants and profits were seasonal among many other things. Above all, we discovered that entering this business without an exiting participant as a partner was suicide.

Our decision to enter a partnership with Farmland was driven by the results of our investigation of the company's size, management, profitability and presence in the value-added product sector. As the nation's fourth largest beef processor, there existed the size necessary to realize economies of scale yet small enough whereby we could achieve a significant enough ownership to establish governance. Farmland National Beef has successfully built a company that was competitive in operational efficiencies and began establishing branded programs utilizing the Farmland brand. Over time, it became our first choice of processing partners.

The primary benefits to producers who participate in USPB are a competitive value-based grid, free carcass data, further processing earnings and guaranteed market access. After the following brief summary of the USPB program to date, I will relate our performance relative to the costs of participation:

1404 members in 33 states
360 stockholders in 20 states
780 feedyards have shipped cattle in 14 states
1.8 million cattle delivered
\$24 million in cash grid premiums paid
\$36 million in processing earnings
\$1.5 billion in total sales

The foundation behind our value-based pricing system is the USPB grid. In industry terms, the USPB grid is considered a "white tablecloth" grid. As the name implies, we are attracting cattle that would produce a meat product in the higher quality categories of choice, upper choice and prime. For example, if a USPB producer delivered a prime carcass, they could realize a quality grade premium of \$150 per head. Since our program began, the AVERAGE premium per head has increased over 90% to \$14.34. The top 50% realize an average per head premium of over \$31. The top 25% now realize on average over \$41 per head premium.

Processing earnings continue to distinguish USPB from many other alliance programs in the industry today. To date, USPB has generated over \$36 million in earnings. In fiscal 2000 alone, USPB members realized \$27.59 in earnings on every head delivered, representing a three-fold increase from our first full year of operations.

The best indicator of success of our program is share value. As a shareholder in USPB, you have the ability to transfer or sale your shares on a private treaty basis to other cattle producers. We routinely assist our shareholders in selling and purchasing shares. Since our initial offering in the fall of 1997, our shares have increased in value 67%, from \$55 to \$92 per share.

While the early investors in USPB took a calculated risk in capitalizing and supporting USPB, the returns have far exceeded expectations. Their \$55 per head investment has realized on average a 200% return taking into account the grid premiums, company earnings and stock appreciation. To put it in cattle terms, in fiscal 2000, the top 50% of our cattle delivered earned their members over \$76 per hundredweight compared to an average \$69 market. That is over \$7 per hundredweight advantage by participating in USPB.

These opportunities exist for beef producers and other agricultural producers if the desire exists. Darwin said it best, "It is not the strongest of the species that survives, nor the most intelligent; it is the one that is most adaptable to change." Great words to ponder as producers, processors and legislators search for the path to the most efficient production of an abundant, better and safer food supply.

Thank you again for the opportunity to visit with you today.

Presented: February 22, 2001

THE IOWA TURKEY COOPERATIVE EXPERIENCE "WEST LIBERTY FOODS"

K.D. Rutledge President/CEO West Liberty Foods

My name is Ken Rutledge, I have been in the poultry business for some 28 years.

I spent 12 years with Swift and Company in their Butterball turkey division. Swift was one of the largest corporate entities in the U.S. when I started with them.

I was employed for over 5 years at Norbest in Salt lake City, Utah. Norbest is the largest turkey marketing cooperative in the world.

I worked for over 6 years with Zacky Farms in California, a privately held fully integrated chicken and turkey business.

The last 4 plus years I have served as President and CEO of the Iowa Turkey Growers Cooperative DBA/West Liberty Foods.

I believe my diverse business background gives me a unique perspective to comment on Value Added Cooperatives, and the food business in general.

Let's begin by reviewing the short history of the Iowa Turkey Growers Cooperative.

In 1943 Louis Rich purchased the West Liberty Iowa Tomato Canning Plant. At that time he was operating a small plant in the Quad Cities, which he had started in 1930

In 1946 the plant was converted into a chicken processing facility.

In 1948 the sons of Louis Rich, Martin and Norman, focus the company on production of turkey products. This focus is on fully cooked further processed products. Over the next several years the company introduces many new turkey products. The company becomes known as a turkey product innovator, introducing a full line of fully cooked turkey products.

In 1979 Oscar Mayer purchased the "Louis Rich" company. The purchase included plants in West Liberty, IA. Modesto, CA., and Newberry, SC.

In April of 1996, Oscar Mayer, a division of Kraft Foods, a division of General Foods, a division of Phillip Morris, announced that they were closing the West Liberty plant effective on December 31, 1996.

In May 1996, 47 Iowa turkey growers banded together to try to find a way to continue production of turkeys. Their motto became "Strive to Survive". Their task was a daunting one. They would either find a way to continue to produce turkeys or convert their buildings to boat storage. Boat storage in Iowa was not an attractive alternative.

The Growers found they would need to:

- 1. Mortgage everything they owned in order to be able to continue to produce turkeys.
- 2. Take a risk few individuals would be willing to take.
- 3. Put together a program of financing with the US Department of Agriculture Rural Development Agency, the State of Iowa Department of Economic Development, Muscatine County, Muscatine Development Corporation, the City of West Liberty, Norwest Bank and Kraft Foods, and do this in a six-month period of time.

With the help of many, many individuals and organizations they were able to pull all the parties together and a program was launched.

On December 27, 1999 the facilities of Kraft Foods in Iowa were transferred to the Iowa Turkey Growers Cooperative.

Now the real fun began.

The growers discovered that there was nothing easy about being in the processing and marketing side of the turkey business.

The first turkeys were processed by the Cooperative in January 1997. A management team had been formed in November of 1996. A sales program was nonexistent. The only program in place was a commitment on Kraft's part to take a certain portion of the product from the plant.

Unfortunately the Coop started processing product during a time of record production and the lowest price in the history of the modern turkey business. This low market condition continued through June of 1998. To give you an idea of how serious this situation was, the normal break-even level for turkey meat is in the \$1.60 range. The market reached a low of \$1.07 during the first year and a half of the Coop's existence.

During that first year and a half; however, many significant events unfolded:

- 1. Two companies closed sizable turkey plants and idled or converted them to chicken.
- 2. The industry began to exercise serious production restraint.
- 3. Supply and demand came into balance. (As an old friend used to say), "The law of supply and demand will never be repealed."
- 4. A major player in the business decided to discontinue slaughter operations.
- 5. The sales and marketing programs the West Liberty Foods staff had been pursuing began to bear fruit.
- 6. Strategic alliances began to be put into place.
 - ❖ A Private Label line of high end deli products for the largest retailer in the country and for another midsize retailer was developed and began to be distributed.
 - A Co-Manufacturing agreement of major volume levels was concluded with one of the largest food companies in the world.

- The program with Oscar Mayer was continued and strengthened beyond the initial 2-year period.
- The plant began production of beef, pork, and chicken products in addition to turkey.
- The plant became the major producer of deli items for two of the largest sandwich shops in the U.S.
- The company began to receive recognition as a preferred production unit receiving such awards as:
 - 1. The Hormel "Spirit of Excellence" award for both 1999 and 2000. Recognizing the company as Hormel's supplier of the year.
 - 2. The Iowa Governors Award of Excellence for 2000 as an innovative producer of food products.

(And)

3. The Value Added Agriculture Award for 2000 presented by the Iowa Area Development Group and the Iowa Rural Electric Coop's to the company which demonstrates how farmers can improve their positions via value added production.

In January 1999, a very viable Cooperative emerges from the trying 1997 and 1998 experiences. The Coop continues to seek out business opportunities to insulate the Coop from the vagaries of the commodity turkey market, even setting plans for a natural turkey product line.

In 1997 the Coop processed 2.9 million head of turkeys from our members. In 1999 we completed the year with over 4.5 million head of turkeys processed. During the 2000 calendar year we not only processed 4.5 million head but also purchased the equivalent of over 1.0 million additional head in the form of deboned meat from other companies.

The coop started with 425 employees and today has over 1225 employees.

The coop has just concluded the purchase of another 50,000 square foot processing facility in Sigourney, Iowa.

The future opportunity for West Liberty Foods lies in selecting the appropriate partners from a comanufacturing and private label standpoint, negotiating long term financially favorable agreements which will continue to insulate us from severe market swings, continue to seek out higher margin niche markets to blend in with the co-manufacturing/private label product and continue to improve to the most efficient production level at the plant.

If we are able to accomplish these tasks, we will provide to our grower/owners a profitable, sustainable business which can be passed down to the next generation as a financial investment worthy of their time and money. This is the key to a cooperative's long term viability and survivability.

In a recent article from a trade publication ranking the top 200 meat and poultry processors based on sales revenue, West Liberty Foods ranked #157 in 1998, #90 in 1999 and #75 in 2000. We ended F/Y 2000 at over \$135 million in revenue. We have arrived and we intend to stay a viable food production entity for the long term.

We are concentrating on three (3) major trends which we believe will drive our business for the future and will also be applicable to any other cooperative food venture.

1ST TREND

Brand Marketing

Brand marketing in the future will focus corporate shareholder attention to marketing of the end product and cause major food companies to look for strategic alliance partners to grow, slaughter and process product. This is already happening at West Liberty Foods. This trend has resulted in four separate comanufacturing agreements at West

Liberty Foods with four of the largest food companies in the country. The example used as the ultimate brand-marketing program is Nike. Nike owns no production facilities. All of their product is comanufactured. This trend bodes very well for the future of West Liberty Foods.

2nd TREND

Private Label

Private label food production is very different today from the old generic labeled product you used to see in the grocery store. Major retailers today want to place their Store's name on upper end, high quality products. The private label business in 2000 grew at an +9% level. Branded product had a flat growth year. Most branded producers do not want to produce private label products, thus a continuing avenue of opportunity exists for West Liberty Foods.

3rd TREND

Food safety

Food safety is the issue of the new millennium. If you are planning to build a food production facility, you have a golden opportunity to build a state of the art facility with food safety as the integral part. At West Liberty Foods we inherited an existing facility. We continue to remodel our facility to provide the safest environment for food production. An example of this is our newly completed segregated facilities for our cook side employees. This means no daily contact between raw side and cook side employees. If you expect to be chosen by major food companies and by retailers as the production facility of choice, you had better provide a reason for them to select your company.

In addition we must plan to market our products to the next buying generation, this in itself is a challenge.

In a speech given by Carol Christison to the IDDBA convention Carol pointed out when looking at the next purchasing generation, "keep in mind that they share a different set of cohort memories than the rest of us. Their attitudes, expectations, and life styles are much different than ours."

Examples

- 1. Their lifetime has always included AIDS.
- 2. The original "Star Wars" movie looks fake to them.
- 3. They never heard "where's the beef?" or "deplane, boss, de plane."
- 4. Roller skating has always meant, "in-line" to them.
- 5. The expression, "You sound like a broken record" has no meaning to them.
- 6. Popcorn has always been cooked in the microwave.
- 7. There has always been MTV and, most importantly,
- 8. They've never had to walk to the TV to change the channel.

Their nostalgic memories will be much different than ours. Their idea of home-cooked will be "take-out" like mom used to buy. They won't want what we had because they never had it.

Through all the ups and downs in our business, we have tried to keep a perspective which would keep our group focused on the big picture while not overlooking the obvious. I can best illustrate this with a story which will wrap up this presentation:

